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CURRENCY REFORM
IN INDIA

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PREFACE.

The exchange and currency systems of the world are at present passing through a serious crisis. The following pages describe how the situation developed in India and discuss the remedies, temporary and permanent, which it is necessary to adopt to place our system upon a sound basis. Most of the chapters in the book are reprints of letters and articles which were contributed to the press in the course of the last three months, and which have been collected with the object of presenting to the reading public a connected and full view of the problem in a convenient form. The first and the last two chapters were specially written for this book to make the presentation complete. Facts and statistics which could not be introduced in newspaper articles have been added and other alterations have been made to render the book more instructive and useful. It is hoped that the booklet will prove helpful to readers who would like to understand clearly the exchange and currency position in India and are anxious that it should be improved in a way conducive to the healthy and rapid industrial and commercial development of the country. I am indebted to the editors of the *Times of India*, the *Servant of India*, the *Commonweal* and the *Journal of the Indian Economic Society* for allowing me to reprint the letters and articles which originally appeared in their papers and journals. Chapters II to VI were published in the *Times*, the next four articles appeared in the *Servant*, the succeeding two in the *Commonweal* and the next was written for the *Journal* of the I. E. S.

CONTENTS.

		Pages.
I.	Introductory	1—8
II.	The Only Course Open	9—13
III.	Temporary Relief Measures	14—19
IV.	Reply to Critics	20—24
V.	The Exchange Standard	25—29
VI.	Why Not Reconstruct ?	30—36
VII.	A 2s Rupee or a New Coin ?	37—45
VIII.	The Situation	46—50
IX.	A Little History	51—56
X.	The Problem	57—62
XI.	The Solution	63—68
XII.	The People Do Not Want It ! ...	69—76
XIII.	A Sound Currency System	77—82
XIV.	Prices and Exchange	83—93
XV.	Gold, Silver and Bimetallism ...	94—102
XVI.	Conclusion	103—107
Index	... ...	i—iii

CURRENCY REFORM IN INDIA.

I.

INTRODUCTORY.

> "No one will dispute that this fixity of exchange is in itself advantageous and especially advantageous to the Indian Government. But the question arises: Does it follow, because the stability of the gold price of the rupee has been established for purposes of foreign exchange, that therefore, it may be taken for granted that all the other functions of good money are fulfilled by the rupee as so 'managed'?"—Prof. J. S. Nicholson in 'War Finance.'

The problem of Indian exchange and currency would not have been ordinarily referred for consideration and recommendations to a commission or a committee like the one now sitting in London, after the definite pronouncement made thereon by the Chamberlain Commission only a few months before the outbreak of the War. In the usual course, the recommendations of that Commission would have been accepted by the Indian Government after opinions had been invited from Provincial Governments and commercial bodies, and the Secretary of State for India had sanctioned the policy to be adopted. In fact, the Government of India addressed the Local Governments and commercial bodies about the middle of 1914, calling for their views on any points to which they wanted to draw attention before their own views could be transmitted to the Secretary of State. The growing pre-occupations of the war, however, precluded all this discussion which was, therefore, postponed to a more convenient time.

During the War itself, the system of our currency and exchange was sorely tried. In respect of the extraordinary increase in the circulation of paper money, the large demand for fresh rupees, the unprecedented favourable balance of trade, the great rise in the price of silver and of the consequent rise in the sterling exchange, Government had to face a very difficult situation from time to time. They solved the difficulties in the best way possible under circumstances as they arose, and modified the existing practice to suit the new conditions. On the close of the war, it was necessary to decide how matters could be restored to the pre-war position where there had been a departure from the old practice. But it would have been, more or less, a discussion of details and not of fundamental principles, which latter, according to Government, had not been affected and still conformed to the pronouncement of the Chamberlain Commission. Replying to a question in the House of Commons, in the beginning of the war, Mr. Roberts had tersely explained the chief aim of the India Office with regard to the Indian currency system to be "the maintenance of the exchange value of the rupee at 16d.," the chief measures of securing it being "the provision of a Gold Standard Reserve and other sterling reserves for the regulation of the coinage of rupees and sales of drafts between England and India".

The principal source of trouble and anxiety caused to Government was the steady rise in the price of silver, which could be secured with the greatest difficulty in the required quantities. It was, therefore, the high price of the white metal which disturbed the fixed rate of exchange and necessitated the appointment of a currency committee. This is obvious from the

budget speech of Mr. Montague, and he observed at the very outset as follows :—

> "I will merely say on that topic that the currency position in India was a source of great anxiety to the Government throughout the war, an anxiety that might have brought disaster to India if it had not been for the timely help of the American Government and the American Parliament by the passage of the Pitman Act. The currency situation is now causing us renewed anxiety owing to the increase in the price of silver which has necessitated a rupee of 1s. 8d. It is a difficult matter to decide how long we shall go on purchasing silver in a rising market and I have decided to appoint a new Currency Commission to investigate the situation caused by the rise in the price of silver in a limited world supply".

This was the genesis of the Currency Committee appointed in June last. It was expected in the main to suggest how the sterling value of the rupee disturbed during war time, particularly by the appreciation of silver, might be stabilised; and other matters referred to it, were merely subsidiary and did not relate to the fundamental question of the monetary standard. The terms of reference to the Currency Committee expressly restricted its sphere of inquiry. Its recommendations must be designed to strengthen the existing gold exchange standard and the question of either introducing an effective gold standard, strongly favoured by the Fowler Committee, or of throwing open the mints to silver as was the case before 1893, was not to be reopened. Looking to the fact that silver had appreciated and was in universal demand and that it was possible to arrive at an international agreement in favour of bimetallism, some people thought that the Committee might be allowed to consider that aspect of the currency problem. But that had been deliberately ruled out. The following answer to a question put to

the Secretary of State in the House of Commons makes the position clear :—

> "Mr. Pratt : The Policy of the legislation of 1893, whereby the mints are closed to the free coinage of silver and a gold standard has been established, is not within the scope of the reference to the Committee. The reference will permit the Committee to consider arrangements for stablishing the price of silver that do not involve the setting up of a bimetallic standard."

In reply to another question it was stated that the reopening of the Indian mints to the free coinage of silver would be a reversal of considered policy based on the findings of three important commissions, and that it could not also be resorted to as a temporary expedient.' Supposing that the experiences of the period of war were not sufficient to warrant the reversal of the policy initiated in 1893, it could not be stated with any show of strong argument that the recommendation of the Chamberlain Commission with respect to the suitability of the exchange standard was final and incontrovertible. The war broke out before the findings of that body could be considered by the Government and the people of this country, and they had already been adversely criticised by several people conversant with of the currency question. Under these circumstances, and particularly in view of the valuable experiences we have had during this war, the whole problem of Indian currency, finance and banking should have been referred to a strong commission and it will not be too much to ask that such a comprehensive enquiry should be ordered at an early date, if the scope of the Currency Committee's inquiry could not be widened as Mr. Montague told the House of Commons, it could not.

It will be clear from what has been stated above, that the Secretary of State was satisfied with the principal recommendations of the Chamberlain Commission and wanted advice only with respect to modifications of currency practice and exchange operations necessitated by the effects of the war. With the scope of its inquiry thus narrowed down, the most important question which the Committee will have to consider, will be the rate of exchange. We have discussed in the following pages the various proposals which have been made in connection with the stabilizing of the rate of exchange, and we need refer to them here only very briefly. The rate has been steadily raised from the level at which it was put twenty years ago viz. 16d., to 22d. in response to the appreciation of silver and it is impossible to leave it there or to make it depend upon a further rise. Not only has sterling exchange to be fixed but it must be so fixed that its stability will be secured against future contingencies. There are some who think that the safest rate will be 24d. At that rate of exchange, the bullion par of the rupee will be 66d. ; that is to say, there will be no danger of the rupee going to the melting pot till the price of silver rises to 66d. per oz.; and it is felt that there is little possibility of silver soaring so high. Others strongly object to such a high exchange on the ground that it will ruin the producers of exportable commodities and reduce our exports to the serious detriment of the country. They would keep the present rate and propose suitable measures to maintain it there. There are still others who want Government to go back to the old level of 16d. and suggest means to stabilise the exchange at that rate. The first course is attractive owing to its simplicity. But its economic effects will

be too serious to make that rate desirable. In the case of the second and the third course, if the price of silver does not fall below the bullion pars of the rupee, which will be about 54d. for exchange at 20d. and 43d. for a 16d. exchange, measures must be adopted to protect the rupee from being melted and to maintain its character of a token coin. It is possible to provide two safeguards. The first is to reduce the metallic contents of the rupee to such an extent that the bullion value of the coin will be lower than whatever value we may impose upon its face. A variation of this method will be to mint a new silver coin of this character with a face value far in excess of its intrinsic value, leaving the rupee as it is, to disappear in time and steadily to put large quantities of that coin into circulation till ultimately it becomes the chief currency of the country.

This course does not, however, find favour with many who strongly object to debasement of the coinage in any form. Debasement is certainly bad and the chief coin of a country must be an honest coin. But debasement may be brought about essentially, though not technically perhaps, in two ways: (1) by reducing the metallic content of a coin while its nominal value remains unchanged or by issuing a new light-weight coin; and (2) by raising the face or legal value of the coin while the metallic content is maintained intact. In principle, and largely in effect too, there is no difference between these two methods, except that the first is direct and the second indirect. When, therefore, the legal value of money is put above its bullion value, it ceases to be true money, whether the procedure is characterised as debasement or not. It is unnecessary to add that subsidiary and divisionary coins stand on a different footing altogether from a

coin like the rupee under the gold exchange standard. To condemn the first of the two above methods on the ground of its being debasement and to propose the second, because it does not suffer from that drawback, is not justifiable. The rupee must remain a token coin even under an effective gold standard as much as under an exchange standard. The only strong point in the argument of the opponents of the so-called debasement is the importance of keeping the token coin as near as possible to its sterling value. But it must be borne in mind that the distance between the two, however small in the beginning, may increase in course of time if silver depreciates in the future.

The second alternative plan is to stick to the fixed exchange value of the rupee by refusing to give coins for notes in emergencies when the price of the white metal rises so high that the bullion value of the rupee exceeds its nominal value. The refusal of Government to encash notes and to coin rupees with a rising silver market will certainly depress the price of silver and protect the rupee. With safeguards provided, the occasions to suspend specie payment will perhaps be very rare, and by standing out of the market Government will be able to thwart the manipulations of silver dealers. But how is this remedy better than the debasement of the rupee?. If debasement is dangerous politically and otherwise, we do not see how Government's power of refusing the encashment of notes, is free from the same serious defect. And this power is to be exercised, be it carefully noted, simply to maintain the artificial value of a silver token currency while our gold standard is to remain only an exchange standard! The proper remedy will be to make the rupee a really subsidiary coin, legal tender to a

limited extent, to place the country on a gold standard basis, with gold coins in circulation and with currency notes redeemable in gold and to allow the free import of the precious metals. America imported large quantities of gold during the war, and India will be able to obtain from that country and from elsewhere, e.g. South Africa, the gold required for currency purposes Refusal to encash notes is a remedy to be resorted to in critical times and it will be a perfectly defensible, because inevitable, step for Government to take in emergencies. But that cannot be made a regular and necessary feature of the currency system.

II.

THE ONLY COURSE OPEN.

"It seems to me that the only way now out of our difficulties is to follow the example of France and the United States, and while admitting the rupee to unlimited tender, stop the coinage of new rupees and coin gold pieces instead. ...... I fear that the present half way house will not do, and unless we place our currency on an automatic and self-adjusting basis, the clouds that are already overhead will thicken and not roll away"—*Mr. G. K. Gokhale in the Imperial Legislative Council, 1912.*

One expected to see India's currency system emerge unscathed through the war ordeal and hoped that Government would take early steps to place it on a firmer footing than it stood on before. But what do we find? We are again drifting, God knows where, as we have drifted for so many years. You have very properly criticised in a recent article the lack of foresight and prompt action which Government has displayed in allowing our exchange and currency to get into a muddle. The British Government appointed a committee to discuss the problems of currency and exchange early last year and its interim report was published long before the conclusion of the armistice. The Secretary of State for India's Committee will sit in July next and will suggest how our problems should be solved!

At the risk of being regarded as a pessimist I must say that I do not see a near prospect of India being given a genuine gold standard. Several people are enamoured of a gold exchange standard and the Cham-

berlain Commission expressed surprise that India was not content with its cheap and convenient exchange standard and insisted upon the Fowler Committee's recommendations being carried out as if there was something sacred in them. By means of her exports of varied and valuable raw materials, India has the power of drawing the precious metals to herself and yet she is advised to be satisfied with the use of gold only for remittance purposes and of silver tokens as internal currency as if she were in the position of the Philipines and the Straits Settlements! With a huge favourable trade balance year after year India ought steadily to build up a gold standard, and our Government ought not to deviate from the path leading to that goal. When the gold value of the rupee was fixed at 16d. twenty years ago, it was believed that nothing was easier than for the Government to pay rupees in India for gold tendered in London and to provide gold in England for rupees paid to it in this country. The description of the Indian system as "managed" currency was resented as an attempt at misrepresentation and it was believed to be perfectly automatic, the currency expanding and contracting according to the requirements of trade. No one dreamt that a time would come when the value of silver in the rupee would largely exceed the fixed ratio and that anxiety would be caused not by a falling but by a rising rupee. But the unexpected has happened and "maintaining exchange" means not preventing it from falling below a fixed level but keeping it from going above that point.

When the exchange was artificially raised from something like 13d. to 16d., Government made considerable saving on the home charges and the exchequer overflowed with surpluses in Lord Curzon's time as a direct consequence. What Government saved was lost

by the people who thus paid indirect taxation to make good the losses of the State Treasury. Similarly while the putting up of the exchange at 20d. will cause a saving to Government, it will spell considerable loss to producers and exporters, though importers will benefit to that extent. Loss to Government is, of course, in the long run, loss to the country, because it must raise by additional taxation the funds required to purchase silver at a high price if the financial responsibility is not indirectly thrown upon the shoulders of a large section of the public. Such questions have to be decided on a balance of conflicting considerations and interests. By raising the exchange Government avoids a loss, and importers and consumers of imported commodities benefit. But on the other side, the producers, the agriculturists and the Indian manufacturers suffer to the great detriment of the country as a whole, for it must not be forgotten that our exports normally exceed the imports by a large margin and the benefit arising from a high exchange does not counterbalance the loss inflicted. Fixity of exchange is an extremely desirable thing and we purchased it at a heavy cost twenty years ago. We are called upon to pay for it again and yet we are told that India's exchange standard is perfectly scientific and eminently satisfactory!

They must have been extraordinarily sanguine people who thought that the opportunity afforded by the conclusion of a lasting peace and the inauguration of the League of Nations would be availed of for the adoption of bimetallism. The supply of the precious metals is and will long remain too short for the world's large demand for them, and the great Powers could have come to an agreement on the question of bimetallism, the adoption of which would have benefited the whole world.

The political obstacle which had stood in the way, was fortunately removed but the unique opportunity has been lost and we have in prospect a serious scramble for gold and silver. As I have stated above, India has the power of drawing gold to itself in payment for her excess exports but we shall be asked to content ourselves with an exchange standard; and without a free flow of gold into the country we cannot have a satisfactory currency system. Whether one admits it or not, the exchange standard has hopelessly broken down in India though its collapse will be attributed solely to war conditions. Bimetallism seems out of the question and India will not have the exchange standard. The only course left for our Government is to develop a gold standard and insist upon a free inflow of gold and the free circulation of gold coins.

I am as keen as any one else upon the desirability of Indian people economising the use of the precious metals as currency and of a more extensive circulation of paper money. But it is futile and unfair to expect any substantial improvement in this respect in the near future and I feel too much is being made of the hoarding habit of the people. If I read the situation correctly, the absorption of the precious metals in India will increase instead of diminishing. With increasing population, with the expansion of trade and industry and with the spread of Western civilization, the demand for gold and silver, both as currency and in the arts, is bound to grow. The improvement of banking and the spread of the habit of saving will certainly tend to counteract this tendency but it will be years before the effects become appreciable. Let an ordinary man save something and he will convert it into silver trinkets. If he saves more he will invest it in gold. Anything over and above this will

alone go to a bank. What a quantity of gold one sees nowadays on the persons of men in our cities in the forms of chains, buttons, rings and pins! Poorer people want their decorations in silver and gold, which is, besides, their bank, their standby in times of difficulty. Much is being made of the 120 crores of the rupee coin absorbed by the Indian people in four years. It is not difficult to calculate how much interest this amount would have earned if it had been invested. But after all, it means an absorption of one rupee only per year per head of the population. And was this absorption not justified, to a large extent, by the high prices of all the necessaries of life? Prices have gone up 100 and 200 per cent.; and how could these be paid without a substantial addition to the currency? It must be borne in mind that note circulation too simultaneously increased 100 per cent. I do not wish to minimise the importance of the substitution of paper in the place of metallic money in our currency. But let us not exaggerate and forget the vastness of India and of her ignorant and poor population. The backwardness of India and her status of dependence ought not to be allowed to stand in the way of her getting a satisfactory system of currency and exchange. It is up to the Government of India to make up a firm stand.

III.

TEMPORARY RELIEF MEASURES.

"The function of a legislator as regards currency is to do as little as possible. Almost any currency of which the position is certain will do its work fairly well. Frequent changes in its basis disturb expectations and infuse a spirit of unrest into business. They may all aim at increased certainty, but their effect must on the balance be increased uncertainty. They resemble the frequent wakings of a patient in order to administer sleeping draughts"—Prof. A. Marshall.

In my last communication on this subject I attempted to show in a general way how it is necessary for our Government deliberately to adopt a currency policy which will be steadily worked up to a gold standard and pointed out the opposition that will have to be overcome if that goal is to be reached. I propose now to go a little deeper into the subject and offer a few remarks on the solution of the problem requiring immediate attention. Bimetallism is obviously out of the question and England, for instance, is considering how its gold standard, which during the war had been partly set aside, might be completely restored at the earliest date. A return to silver monometallism, such as we had before 1893, seems to be unthinkable after all the currency reforms we have attempted since the time of the Herschell Committee. The third alternative course is that of maintaining the gold exchange standard which finds favour with a section of financiers and economists. But it must be rejected in view of India's strong position as a producer and exporter of commodities which are in constant demand in the outside world, and of her power to draw supplies of the

precious metals in sufficient quantities, not to mention the losses and inconveniences attending our exchange standard. We are, therefore, driven to the alternative of a full gold standard which may be slowly but securely evolved out of the existing position. The leading nations of the world have it, and conditions in India are not unfavourable to its development in this country. One may go even further and say that a gold standard is the condition and measure of India's growing commercial and industrial prosperity.

So much about the immediate future. Now to come to the present situation. Here is the Government of India faced with the necessity of buying silver at a dear rate and of selling the rupee in India at a loss. It will be contended that Government having assumed the obligation to maintain exchange, must bear the loss arising out of the discharge of that responsibility. If the exchange falls, it is bound to provide gold in London for rupees offered in India and if it rises, it must give rupees for gold tendered in England. Government has disowned any such obligation when the intrinsic value of the rupee exceeded the mominal and it was called upon to sell the rupee for 16d. when its cost of manufacture was 18 or 20d. It may forego the profit incidental to the coinage of rupees, but it could not go beyound that and incur losses. The gold standard reserve has indeed been built up with the main object of its being used for the maintenance of exchange, and it is said that Government should reimburse itself out of that fund for any loss it may incur in maintaining the exchange. The fund came out of the pockets of the people, and there is nothing wrong if it returns to the people. That the fund laboriously built up in the course of years and forming the bulwark of our currency system, will be soon exhausted if it is

used in the way suggested, is not a conclusive argument in the opinion of the critic. The fact of the matter is that the extraordinary rise which has taken place in the price of silver was never anticipated and the only anxiety Government had, was with reference to a fall in exchange as a result of an adverse trade balance. The essence of the whole system was that the rupee was to be a token and as, with a rise in the price of silver, it ceased to be a token, that character was to be reimparted to it by putting up its exchange value. At any rate, the metallic value of the rupee could not be allowed to exceed its face value because the sale of rupees under those cirumstances was an unbusinesslike proposition. The Indian system was developed with one principal aim in view, namely, to enable the Indian Government to discharge its sterling obligations in London. But the experience of the last few years proves that India's position is now extremely strong in this respect and that there is more than ample provision for keeping up the exchange if it ever betrays a tendency to fall.

Leaving aside this aspect of the question, the critic will suggest that Government should not sell councils in London and provide rupees here if that transaction is costly. The India Office may very well draw upon Indian funds locked up in England for discharging our obligations there on account of the home charges. Then with regard to our creditors, let them remit gold to this country, and it will be manufactured into sovereigns in India to the great benefit of our currency. But where is the gold ? It is no concern of ours, replies the critic. If other nations want our commodities let them pay us in gold. The difficulty experienced by our customers in making payment to us must lead to a

reduction of our exports, the cheapening of Indian prices and loss to producers. The policy of putting up the exchange will produce similar results, discouraging exports and imposing losses upon producers, while, at the same time, it will stimulate imports and reduce the balance of trade in India's favour. It will benefit the importer and the foreign manufacturer to the detriment of the Indian producer. The Indian people will benefit to the extent to which they consume foreign commodities but will lose heavily as producers. This is certainly not a comfortable position for the people as a whole to find themselves in. The Secretary of State for India, in whose hands lies the authority to initiate policy, will, as before, be guided by the advice of London financiers and these will recommend no measures which are calculated to diminish the by no means large stock of gold in England. It will be said that India's best interests are bound up with the maintenance of London's position as the financial centre of the world and that while the Empire will suffer by the free flow of gold to India that gold will, on coming here, only be wasted by being hoarded. This has been the burden of the complaint of London financiers against India and was at the back of the mind of the Chamberlain Commission when it set its face against India's claim to a gold standard and a gold currency.* It is, therefore, more than ever necessary that the Indian point of view should be clearly expressed.

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* The Chamberlain Commission itself based its opinion as regards the unsuitability of an effective gold standard in India on the conviction that it was not necessary in the bast interests of the country. It has, however, noticed the mutually destructive arguments that 'India should be encouraged to absorb gold for the benefit of the world' and that she should be refused facilities for obtaining gold to prevent the drain of gold to India.

The *Times of India* has consistently advocated a gold standard and a gold currency for this country and there is no stronger critic of the policy of drift which Government have pursued for the past many years. Let it carry on the agitation vigorously till a sound system comes to be adopted in India. Assuming for the moment that there was no escape out of the difficulties with which Government was confronted but to put up the exchange, one may inquire if it is not practicable to restrict the legal tender quality of the rupee to a certain fixed amount and thus reduce it to the status of a subsidiary coin with a view to reduce the demand for that silver token. If this suggestion could be accepted, it would be a measure of permanent importance, facilitating our progress to the goal of a gold standard. As a temporary measure it may also be proposed that the silver contents of the rupee may be reduced so as to lower its gold value to the level of the market price. This cannot be characterised as debasement. The rupee is, after all, a token coin and we may either enhance its nominal value as Government has done or reduce its silver contents while maintaining that value. But Gresham's Law will here come into operation and the heavier rupees will be driven out of circulation. The embarrassment of Government will increase instead of diminishing as a consequence. The suggestion is not of course to be seriously taken, and I have referred to it because I came across a proposal akin to it in the newspapers some time ago.

Taking the currency system as it is—it cannot be changed in a moment—and supposing that Government does not pay for the loss due to high prices of silver out of the gold reserve maintained for supporting the exchange, then there is no alternative but to raise the

nominal value of the rupee in proportion to the rise in the price of the white metal. The demand for rupees will thus be reduced and there will be no loss to the State on the coinage. The idea of making notes inconvertible and thereby economising the use of rupees cannot be entertained for a moment. Suspension of specie payments has been resorted to in England; but in India nothing must be attempted which is calculated to shake public confidence as such a step is bound to do. The use of paper money may be popularised by a compaign of public education in this respect, but the immediate utility of this measure is doubtful. The masses in India take a long time to digest such things and no material relief may be expected along this line. The early issue of a public loan will serve to bring currency back to the Government Treasuries to a certain extent and a big peace loan will give some help. The conclusion of peace and a favourable monsoon will facilitate the restoration of things to a normal condition, to the lowering of prices and to a reduction in the demand for rupees. If the restrictions on the import of gold could be removed and a quantity of the yellow metal got into circulation, the situation will become a little easier. It is in the above directions that relief is to be sought and, in the meanwhile, the whole problem must be reconsidered with the object of improving the Indian currency system and placing it permanently on a sound and satisfactory basis.

IV.

REPLY TO CRITICS.

" But I repeat preposterous as this proposal is, and calculated as it is to create greater evils in the near future, it is the duty of this Congress to enter its emphatic protest against this latest currency nostrum as against any other panacea which may have for its object an alteration of its currency which, I have said, is all right—a currency against which people have never complained, a currency which, in the opinion of all sound experts, is the most suitable and convenient to the people of India and every way beneficial to their material progress."—*D. E. Wacha at the Madras session of the Indian National Congress, 1898.*

In my last two communications I dealt with (1) the permanent measures of improvement which it is necessary to adopt in order to place the Indian currency system on a sound footing so far as it is possible to achieve this end and (2) the steps that may be immediately taken to relieve the present situation which the high price of silver has created. As regards the first, I expressed the view that the silver standard and bimetallism being impracticable, it is desirable for us to evolve an effective gold standard system out of the present exchange standard which is only a half way house for a country like India with its growing commerce and industries and its increasing favourable trade balance. As regards the second, putting out of consideration the idea of the loss on exchange being made up by Government out of the gold reserve, I suggested two alternative courses, viz., (1) reducing the silver contents of the rupee and (2) putting up the exchange to bring it in a line with the price of silver. I likewise mentioned other measures which were calculated more

or less to increase the quantity of currency in circulation and give some relief. I laid particular stress, as your readers must have seen, on the enormous loss which producers and exporters will have to sustain owing to a rise in the exchange and was careful to point out that whatever gain may be made by importers and the consumers of imported commodities, it will not be sufficient to counterbalance the serious loss which the country as a whole will suffer.

The alternative plan is to reduce the silver in the rupee. This seems very simple. But few have any idea of its utility as a remedy against the currency ills with which we are immediately confronted. People want more rupees and, let us suppose that new light weight coins are turned out of our mints and put into circulation. Are we to retire the old rupees which may be calculated at about 325 crores? Or are the two coins to be in circulation simultaneously? The former process will take years to be completed and the latter course will lead to confusion. The heavier rupees will be hoarded or melted and the monetary stringency will be intensified at a time when more and more currency is needed. We must consider coolly for a moment if it will be wise for Government to adopt a policy, however beneficial to the mass of the people, which is likely to create unrest, loss of confidence and confusion. Ignorant people will compare the new rupee with the old to the former's disadvantage and will feel that Government is tampering with their currency. Their credulity will be taken advantage of by wily folk and we have had sufficient experience of such transactions already. I do not think that any responsible Government, particularly the Government of India, will embark upon such an adventure which is likely to bring unnecessary

trouble of a serious character. Whatever one may think of the suggested remedy of reducing the silver in the rupee as a measure for better and normal times, it may prove worse than the disease in times like the present.

The examples of the Philippines and the Straits Settlements are quoted to show how thirteen years ago Governments in those countries protected their token silver currency by adopting drastic measures to reduce the quantity of metal in the coins. But a study of the history of those operations will show that the Governments concerned did not find it an easy job to displace the old coins by lighter tokens. And this work was mere child's play when compared to the conversion of enormous dimensions that the Indian Government will have to carry out. I did not prefer the method of raising the exchange to that referred to above because it was less costly, but simply because while it entailed loss upon poor producers, it was free from the dangers and risks of failure which are likely to prove more serious. Government too must have refrained from resorting to that remedy for the extremely cautious and wise considerations pointed out above. The practical difficulties involved in the plan favoured by your correspondent B. F. M. are not so slight that Government may ignore or make light of them.

Now to come to the gold exchange standard. B. F. M. has drawn a harrowing picture of the poor cultivator who loses his hard-earned income to a considerable extent by the artificial appreciation of the rupee. As pointed out above, I took the same view of the effects of the high exhange as he does. But I wonder how his sympathy for the poor rayat vanishes into thin air when he supports a gold exchange standard and a token rupee with a face value largely above its bullion value. The

elaborate calculations he has given about the rayat's 300 bags of produce would have told him that with exchange at 16d. and the bullion value of the rupee at 12 or 13d. as we must have under the exchange standard, the cultivator is no less a loser to an appreciable extent. This loss the cultivator has suffered from year to year since the closure of the mints. It was on behalf of the poor rayats that the Indian politician* put up a brave fight for years together in opposing the policy of 1893. It is also for the ultimate benefit of the poor rayat as also of other classes that the advocates of an effective gold standard have carried on an agitation. Well may B. F. M. cast a cheap fling at the much abused Indian politician. I do not want him to defend him. Only let B. F. M. calculate what large amounts the Indian rayat has paid in indirect taxation to Government during the last twenty years as a direct effect of its gold standard policy. Let him realise the enormous loss the country has suffered all these years on its exports and then bless the exchange standard. As a system to be adopted in a period of transition, it may be tolerated. But to extol it as an ideal system for a country like India, is something to which it is difficult to reconcile oneself. I do not know from where Prof. Panandikar got his information that leading nations in the world have adopted or propose to adopt the gold exchange standard! I do not think foreign nations are such fools that they will be content with the third best when the first best is attainable. It is true that during the war even Eng-

* The Indain National Congress passed resolutions strongly protesting against the Government's policy of changing the currency system of India, and Messrs. Dadabhai Naoroji, D. E. Wacha, R. C. Dutt, Gokhale and other political leaders never wearied of demonstrating the detrimental effects of that policy on the well-being of the mass of population in India.

land had, to a certain extent, to abandon her effective gold standard. But it had to abandon many other good things. And all of them are being restored without the least avoidable delay; and India is probably the only large country in the world with a huge favourable trade balance, which is satisfied with a full legal tender currency as the chief medium of exchange. There is no reason why this state of things should not be improved and India should not evolve a currency system which will better promote its economic progress. The conditions necessary for success in the attainment of the goal are present in India and yet some of our thinkers would hug the exchange standard to their bosoms because it prevails in the Philippines and the Straits Settlements and is regarded by Western economists and financiers as suitable for poor and dependent oriental countries!

V.

THE EXCHANGE STANDARD.

"A more important lesson this history teaches us is that the statement now so generally made that India was too poor a country for the circulation of gold coins is unsupported by the facts of the case, as they can be ascertained from the history of the Mints under Mahratta rule ………… Even the advocates of silver currency might borrow a leaf from the administration of Mogul and Mahratta rulers, and there is apparently no reason why, if the gold coins were in demand 130 years ago, there should not be a similar natural demand for these coins in our present condition of greatly extended commercial and banking activity".—Justice M. G. Ranade.

The position of those who advocate the steady development of the Indian currency system in the direction of an effective gold standard, is often misunderstood and misrepresented by their critics who are found to describe the supporters of a gold standard as people carried away by mere sentiment or by the glamour of gold or by political prejudice. I want here to make clear the attitude of thinkers who would have in this country a system of currency under which gold will be the standard of value and will be freely exchanged in internal and external trade and under which paper currency will be freely converted into gold if and when that is necessary. This does not mean that gold must be used in daily transactions as silver is used to-day; nor does it imply that gold should be pushed into circulation at the cost of paper and in order to displace it. All that it means is this. Gold being universally favoured as the standard of value and being adopted as such by the leading nations of the world, India which

has large dealings with these nations cannot help falling into line with them. It was for this reason that the countries of the Latin Union and others adopted the gold standard: their hands were forced by circumstances which they could not control. A nation must have a stable foreign exchange, and a free mint and an adequate supply of currency. Bimetallism, which was tried for years in Europe and America, failed to satisfy these requirements and hence the almost universal adoption of the gold standard that we see to-day.

Advocacy of the gold standard is not to be taken as necessarily implying condemnation of bimetallism as a system or the rejection even of the silver standard if adopted under suitable circumstances. But nations which count have not taken kindly to the first, and the second has become hopeless. When there was an opportunity, when silver was steadily falling or gold steadily rising, causing endless troubles in Europe, America and Asia, nations could not come to an agreement and had to shift for themselves in the best way they could. Government in this country had demonetised gold and placed its system on a silver basis long before its exchange troubles began. Popular demand for a gold currency had been rejected though backed up by several high officials and experts. Mints were closed in the teeth of a large volume of public opposition in 1893 and the gold standard was adopted finally in 1899 with the avowed object of its being made effective in course of time. But Government did not hold steadily even to this policy and developed the exchange system on which the Secretary of State for India now wants the recently appointed Currency Committee to place its seal of approval. This brief account of the Indian system is a history of Government's drifting into a position from which

it does not want to move, though it is not satisfactory. The policy initiated in 1893 gave stability of exchange and benefited the Government Treasury and people who had to make remittances abroad, but it achieved this end only by transferring the losses on to the shoulders of the people. That policy continues to-day, and it is a reform of that policy which is sought by those who advocate the development of an effective gold standard in India. We have had enough of tinkering, and what is now required is a consistant, continuous and bold policy of reform.

But does not the present exchange standard in India satisfy all the needs of the people that an attempt should be made to have it altered? Does it not give a stable sterling exchange and provide whatever currency—gold or silver—the people want? What does it matter if we have a token currency so long as it yields all the advantages of a gold standard without its cost and inconveniences? Do not the masses want rupees and is not the parity of the silver coin with gold succesfully maintained under the existing system? Is not an effective gold standard, therefore, a superfluity and a gold currency a costly luxury? I shall attempt a brief reply to these questions. The British currency system is the envy of the world because under it gold forms the standard of value and is freely available for all kinds of exchanges. Other nations which have adopted that system are not in the same happy economic circumstances in which England stands and have not, therefore, been able to attain its perfection. Nevertheless, they attempt as close an approach to it as possible. At one end, therefore, stands England on the free gold basis, and on the other, countries like India which have a gold standard but with a limited convertibility of their internal curren-

cies into gold. Nothing is perfect in this world, and the gold standard is not an exception. But it is unquestionably better than the exchange standard which is adopted only because the other is not attainable. It is thus not sentimentality or political prejudice, but the best interest of the people, which sways currency policies in other countries that demands a reform of the Indian system. All European nations, large and small, and the U. S. A. and Japan have adopted the reform. Is India to be singular in her wisdom?

Oh! but the people of India do not want a gold standard and a gold currency. People not want it! People who were accustomed to a gold currency for thousands of years before gold was demonetised in 1853? Do the British people want a gold currency? A minute fraction of the population in Great Britain has occasion to handle the soveriegn, and silver forms the bulk of the currency used by the masses there. And yet they have a gold standard and a gold currency. Similarly the masses in India will have their silver currency, the subsidiary coinage of rupees, but those who want, will freely use gold coins. If it is contended that a gold currency is not wanted by the people, it may be urged with equal cogeny that currency notes are not favoured by them because the bulk of the population rarely handles paper money. But our paper currency is growing steadily in volume. Government ought now to restrict the legal tender character of rupees to an amount of fifty or one hundred, and issue notes convertible into gold above the denomination of fifty rupees. People will not complain as their dealings are in small amounts for which they will have their rupees all right. The great advantage of the reform lies in obviating the loss the country suffers by having to convert the value of its

exports into the local currency by an artificial measure, viz., 16d. or 20d. per rupee. This loss is a tax upon poor people, who cannot afford it. The exchange standard is a device forced upon a nation by the necessity of the foreign remittances it has to make in gold. There is serious difficulty experienced in finding this gold and purchasing it with the local currency which is made of silver or paper. But fortunately India has annually a large favourable trade balance and can easily meet its obligations to England and can, in addition, import quantities of gold in satisfaction of her claims upon other countries. It is unreasonable under these conditions to say that India must have an exchange standard and that the demand for an effective gold standard is based on sentiment or prejudice.

VI.

WHY NOT RECONSTRUCT ?

"I have long believed that a gold currency is wanted in India; that its introduction ought to be an object for gradual, if not immediate, attainment; and that the British Government ought to adopt measures from time to time towards that end".

"On the whole it seems clear that, while in all other branches and departments of administration we endeavour to give to India the best of everything, so far as we can, yet in respect of metallic currency we deliberately withhold from her the first-rate article and afford her a second-rate one".—Sir Richard Temple.

I do not think it necessary to take up much of your space in noticing the further criticism of your correspondent, B.F.M. We are perfectly agreed in thinking that the rise in the exchange is an evil and means a serious loss to the producing and poor classes in the country. We differ only as to the practicability and advisability of the remedy for the evil, he specially favours, namely, the minting of light-weight rupees. B.F.M.'s repeated elaboration of the illustration of "the 300 bags of produce" carries the discussion of the main question no further. He has not shown how the proposed light-weight coins will be put into the hands of the people and will circulate along with the existing 325 crores of the old heavy rupees without leading to hoarding, melting and confusion at a time of acute monetary stringency. There is nothing theoretically impossible about the proposal and it may be carried out in certain given conditions. The question is, can the suggestion be usefully put into operation in existing circumstances? And the reply will have to be a matter

of opinion based upon the teaching of history and practical experience. It is best to leave the point at that.

B. F. M. has obviously confounded the measures I suggested for a steady reform of our currency system with the steps that may be adopted for immediately relieving the present situation ; and much of his difficulty is clearly due to this confusion. I shall, therefore, pass over his remarks in that connection and shall only notice his reference to Japan. He does not see much difference between the gold standard system of that country and the system we have in India because, according to him, there is no gold in circulation and the principal currency consists of notes and silver tokens in Japan. The test of the real gold standard is the convertibility of the chief currency ; and B.F. M. knows as much as I do that, while the Indian notes are not convertible into gold, the Japanese notes are. There may be gold in circulation or there may not be. The national currency, excepting the subsidiary coinage, which alone is a token currency, must be by law convertible into gold. In 1916, which is the latest year for which complete official figures are available to me at the moment, against 601 million yen worth of notes issued by the Bank of Japan, as much as 401 million yen was held in gold coin and bullion and nothing in silver. In the same year the Japanese mint issued 20 yen pieces (gold coin) worth about 42 million yen as against only 4¾ million worth of silver coins; and there were in circulation 46 million yen in gold and 117 million yen in silver coins. These figures will speak for themselves when taken with the explanation offered above. B. F. M. again refers to Japan's gold assets to the extent of 1209 million yen held abroad and asks why India should insist upon having her gold sent to her

instead of allowing it to remain in London. First of all, it must be borne in mind that for years before the war, Japan had annually the trade balance going against her and had, therefore, systematically to provide for the liquidation of her debt to foreign countries by holding gold abroad. The war brought unexampled prosperity to Japan in this respect as may be seen from thefollow ing figures :—

Year.	Excess of Exports. In Merchandise.	Excess of Imports.
	Yen.	Yen.
1911............	...	66,371,817
1912............	...	92,010,435
1913............	...	96,971,431
1914............	...	4,614,264
1915............	175,857,059	...
1916............	371,040,208	...

Year.	Excess of Exports.	Excess of Imports.
	Of gold, silver bullion and specie.	
	Yen.	Yen.
1911............	18,230,018	...
1912............	16,780,802	...
1913............	26,071,995	...
1914............	21,542,854	...
1915............	20,269,506	...
1916............	...	72,950,483

With a large trade balance normally against her and having to export the precious metals to meet her obligations, it is no wonder that Japan should hold her gold assets abroad. What is India's position, on the other hand? The balance of trade is, as a rule, in her favour, and India imports large quantities of gold every year, to the dismay of certain people, even after meeting

her foreign obligations to the full. And yet, be it noted that India holds her gold assets in London to a very large extent. Has B. F. M. not heard that India's Gold Standard Reserve of about 50 crores, or about 330 million yen, is located in London and that about 85 crores or 560 million yen belonging to the Paper Currency Reserve is held in the same place? He should have known that India rendered valuable help to the Empire during the war by keeping her gold in large quantities in London and that many of her currency and financial troubles resulted directly from her contribution to the successful prosecution of the struggle.

Several of your correspondents seem to think that it will be futile to agitate for an effective gold standard when it has been ruled out by the authorities, as may be seen from the terms of reference to the Currency Committee. The cry of the critics of Government's policy did indeed prove useless in 1893, in 1898, and in 1913, as also for several years before that. But that does not render the agitation for reform unnecessary or less valuable. The reformer's task is to fight for a sound currency system and standard of value, under which the chief national currency will be freely convertible into the standard metal and will be easily available for internal and also external payments. We had such a system before 1893, though it was a silver standard. Gold or silver, the system must be automatic and must conduce to unhampered convertibility and exchange. Both gold and silver coins freely circulated in India for centuries, but Government demonetised gold and went in for the silver standard. It tenaciously clung to silver when conditions were favourable for the adoption of gold. Men like Mr. Laing, Sir C. Trevelyan, Sir Richard Temple and Lord Northbrook urged that a gold currency

was among the urgent wants of India and commissions of inquiry endorsed their views, which were also the views of representative institutions and men; but Government stuck to silver. Later on, when gold appreciated and the Indian exchange went down, Government ran away from silver as if in a panic and went plump for the gold standard. Deficits stared it in the face, additional taxation seemed impossible and dangerous and a certain class of people would give it no rest till the silver standard had been abandoned. Government was told, on the other side, that there was nothing wrong with the currency, that the nation as a whole did not require a change, and that the remedy for the deficits must not be sought in the abandonment of the silver standard but must be found in other measures. But Government was over-whelmed by the prospect of deficits and the agitation for a stable and high exchange, and made light of the opinion expressed by several people to the effect that "A monetary standard of whatever metal, is that by which a nation as a whole measures its transactions in buying and selling; and in that acceptation there can be no doubt what the standard of India is. Make what laws you please, it will remain silver." (Lord Aldenham).

What did Government achieve by this change of standard ? It put an end to its deficits only by transfering its burden to the shoulders of the people. It set up a fictitious standard, the exchange standard, by which to measure the nation's transactions in buying and selling. The money required to make up the deficits did not fall from the sky and there was no magic in the new system by which funds could be raised without taxation. The country had to bear additional taxation; only it was not seen. Granting that the new arrangements made exchange stable and that the loss of the

state treasury being the loss of the nation, it had to be met by the people, it cannot be said that a currency system is satisfactory under which people can be taxed and be made to pay for its maintenance in an indirect and unknown way. Such taxation is undesirable and unnecessary, and if necessary, it is unevenly distributed and is detrimental to the interests of large classes of people and in the long run of the whole nation itself. This is an important aspect of the question which must be firmly grasped. Sir James Mackay (now Lord Inchcape) was asked by the Chairman of the Currency Committee of 1898 to state what gain Government had made by the closing of the mints, and he replied that it was 18 crores of rupees. The following are the questions and replies which ensued :—

"That would have been an increase on the taxation of India ?— The taxation of India would have had to be increased in the last five years to the extent of 18 crores of rupees to put the Government in the same sterling position as it is to-day.

"Who has to pay that £ 9,000,000 ?:—It has been practically an indirect tax on the people. I hope a good deal of it has been got out of the sterling buyer on this side.

"(Sir David Barbour)—Does your calculation refer only to the drawings of the Secretary of State ?—That it all.

"Because there are other charges to be met in India which are settled or fixed on a sterling basis?–No doubt. This is purely bills and telegraphic transfers."

Assuming that there was no escape left for Government, other than the establishment of the gold standard,

did it consistently pursue the policy laid down by the Fowler Committee and accepted by itself? No. Knowing that the exchange standard was a measure only for a transitional state of things and that as a permanent system it was intolerable, that Committee deliberately recommended the gradual evolution in India of a true gold standard accompanied by a gold currency. It said:—"Looking forward as we do to the effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold we recommend these measures for adoption. Under an effective gold standard, rupees would be token coins, subsidiary to the sovereign. But existing conditions do not warrant the imposition of a limit on the amount for which they should constitute a legal tender; indeed, for some time to come, no such limitation can be contemplated."

This was in 1898. During the past twenty years we have built up a large gold reserve and the nightmare of an adverse exchange has been effectively scotched Our imports of gold are large and note circulation has increased. Has not the time come for a forward step in the direction indicated by the Fowler Committee? Why should we continue to measure our transactions in buying and selling by an artificial monetary standard when the need for it has passed away? When we are talking of reconstruction, why should we not reconstruct and improve our monetary system? Why should the Currency Committee be debarred from discussing this question and be asked to regard the exchange standard as a "settled fact"?

VII.

A 2s. RUPEE OR A NEW COIN ?

The Fowler Committee and other authorities have advocated a gold standard and a gold currency, not a silver currency, as the permanent arrangement for this country. The time has come when we should consider whether we should not enter on the next stage of our currency policy and go in for the coinage of gold pieces admitting silver, however, for the present, to unlimited legal tender. But a time must come when silver will have to be restricted in amount as legal tender and gold will then have to be the principal coin of the country "—G. K. Gokhale in the Supreme Legislative Council, 1912.

One question of the most urgent importance which the Currency Committee will have to decide will be that relating to the sterling value of the rupee and the stability of the exchange in the neighbourhood of a new par to be fixed in view of the appreciation of silver and the possibilities of future variations in the price of that metal. The old parity has broken down, stability of exchange has been violently disturbed and the future of the sterling value of the rupee is uncertain. The Committee will, therefore, be called upon to say how exchange may be made stable once more and what measures should be adopted to secure that stability against the danger of the appreciation of silver, assuming all the while that the principle of the exchange standard underlying the existing system is to be maintained intact. If the rupee is to remain a token coin, endowed with the quality of a full legal tender, convertible into gold or gold exchange at the discretion of Government, there are only two courses open, viz. (1) to

put the sterling value of the rupee at such a high level that it will not be possible for the price of silver to reach it and (2) to keep the rupee at 18d. or 16d. and reduce its silver contents to such an extent that there will be a sufficiently wide gulf fixed between the bullion price and the nominal value of the token coin.*

If one were asked to choose between these two alternative plans, one would not hesitate to go in for the second. The rupee is a fiduciary coin, a note printed on silver and it is immaterial what is its bullion content. The holder of the rupee, like the holder of a note, does not possess a commodity whose intrinsic value corresponds to its nominal value in exchange and it is immaterial to him what the bullion value of the rupee is so long as its purchasing power is identical with what is stamped upon its face. Any alteration in the unit of value, however, is another matter. The raising of the sterling value of the rupee to 18d. or to 2s. must produce a disturbing effect of a far-reaching character. The interests of producers, exporters, importers, creditors and debtors are differently affected and the whole economic structure is violently disturbed. Producers receive a smaller quantity of the units of value for their goods, while importers make a corresponding gain by having to pay less for the same commodities. The undesirable effects upon the country, taken as a whole, of raising the sterling value of the rupee have been already pointed out in my previous

* A third course lies in suspending specie payments, that is, in making currency notes inconvertible in times of emergency when the metallic value of the rupee threatens to exceed its fixed face value. See Introductory Chapter, where this third method of dealing with the problem is discussed.

communications and it is unnecessary to go over the same ground again.

The problem which confronts the Government and the Currency Committee in this connection is a novel one so far as the history of the Indian currency system is concerned. But other countries have already had occasions to face a similar difficulty, and, therefore, we have precedents to guide our steps. The currency history of the Philippines and the Straits Settlements is of peculiar interest in this respect. The American Government carried out important currency reforms in the Philippines about the year 1903, establishing a gold standard with a new silver peso whose money value was 32·4 per cent. greater than the bullion value, and whose parity with gold was to be maintained on the exchange standard principle. Two years later, however, the price of silver rose and the bullion par of the peso was passed. The Government had, therefore, to take measures to protect the new peso and was placed in the same situation as the Government in India at the present moment. The peso was equivalent in value to 50 cents of the United States currency and its bullion par was 29¼d. per ounce of silver in London. The price of silver was 30¼d. an ounce in November, 1905, and 33⅛d. a year later. The U. S. Government did not think of changing the unit of value, but decided to reduce both the weight and the fineness of the silver coin. The fine silver content of the peso was thus reduced by 34 per cent. and the coin was not in danger of being melted till silver prices rose to more than 44d. The recoinage operations were surrounded with serious difficulties and could be carried out only with great trouble.

In the Straits Settlements recoinage had been effected about the same time as in the Philippines, and the exchange value of the new dollar had been raised in 1906 in 28d. to suit the rise in the price of silver which was taking place at the time. The bullion par of the dollar was 33 $\frac{3}{16}$d. and when the price of silver rose to 32 $\frac{9}{16}$d. in October, 1906, prompt measures had to be taken to protect the new coin. The question before the Straits Government then was as it is with the Indian Government at the present moment, whether it should raise the sterling value to a higher level or should debase the dollar without touching its exchange value. The Government adopted the second course though it hesitated whether it should reduce the fineness of the coins, leaving the weight and size unchanged or reduce the weight without changing the fineness. In the Philippines both the weight and the fineness had been reduced; in the Straits only the weight of the dollar was reduced to the extent of 25 per cent. The bullion par of the dollar was raised by this measure from 33 $\frac{3}{16}$d. to 44¼d., the price of an ounce of silver in London. *

Of the two courses dealt with above, the raising of the unit of value, that is, enhancing the sterling value of the silver token, is the simpler one and, therefore, more attractive. The Government has only to declare, as the Indian Government has recently done, that from a certain date the exchange value of the national

* The Siam Government has recently reduced the bullion content of its two divisional silver coins the 2 and 1 salung pieces, from 800 to 650 parts in 1000, and the two salung piece will be a full legal tender coin instead of being legal tender upto a fixed amount. It is needless to say that Siam is on a gold exchange standard basis with the silver 'tical' as the principal coin whose gold value was fixed at 18d. Two 2 salung pieces were equilvalent to one tical.

currency in terms of gold. the international currency, will be raised by a number of pence. The mints are not open, Government controls the supply of currency and it is willing to give gold or sterling drafts at the fixed rate. There is no trouble of retiring old currency and of issuing a new one. The change can be effected at a stroke and a new par is established. But the course is as inequitable as it is simple because it disturbs all economic arrangements and inflicts losses on large classes of the population. The other plan is difficult and is attended with great trouble. It has, however, the merit of leaving contracts between debtors and creditors undisturbed and it causes injustice or loss to no one. But the peculiar difficulty involved in the adoption of the plan lies in deciding upon the reduction in the silver content and fineness of the silver token and particularly in carrying out the retiring and recoinage operations. It is for metallurgical experts to say whether and to what extent the weight of the rupee can be reduced with safety. The rupee must not be too small to be conveniently handled and its appearance is also a matter that must not be ignored. Then again, experts of the Finance Department will have to consider how the existing rupees may be retired and new ones substituted without aggravating the evil of monetary stringency and encouraging melting and hoarding. The difficulties attending upon a scheme of recoinage are not so slight as some people seem to imagine when Government will be called upon to recoin more than three hundred crores of rupees. As I have shown above, this is certainly the better of the two plans of dealing with the rupee under an exchange standard. One can not, however, foretell what course the Currency Committee will recommend. But if a guess may be

ventured, nine to ten, it will recommend the raising of the exchange to 2 shillings. The rupee has been already raised from 16d. to 20d. Then why not 24d.? The bullion par of the rupee at 2s. will be 64¼d. and all the danger of a further rise in silver in future will be permanently eliminated. It is difficult to contemplate with equanimity the effects of this policy, but it has been seriously proposed. It is urged in favour of the plan that though producers will suffer by it, consumers will gain by the falling off of exports and the general lowering of prices that will ensue and contentment and peace will prevail in the country. This is the pass to which the exchange standard has brought us! And it will not be a valid argument to say that there is nothing wrong with the standard and that we have only to adjust the value of the rupee from time to time in either of the two ways mentioned above.

No. The exchange standard is only a makeshift. It will not do. We want a genuine standard, either silver or gold. As has been happily said, 'it is not a monetary system, but a connecting link between an isolated market and the broader market to which it looks for support and that it is a system 'available only for dependent countries.'* The system is not automatic; and though the fact is disputed, it leads to inflation and high pices. It entails inequalities and indirect taxation, and from the point of view of production, it proves a handicap. Under it there is the temptation of increasing the sterling obligations of the country and the people lose on account of so much wealth going abroad. The advantage of the stability of exchange is undisputed and it may be admitted that as a measure for a

* See Prof. Nicholson's War Finance.

period of transition the exchange standard had to be put up with. But what about the future? The Chamberlain Commission sought to make out that the exchange standard system was satisfactory inasmuch as under it stability of exchange was maintained, that the people got what coin they wanted, either the sovereign or the rupee, that a gold currency was useless for maintaining the exchange and was wasteful, that it was better to promote the circulation of notes than of gold coins, that Egypt was the only country in the world where gold circulated to a large extent and that India could not advance along different lines from those of other civilised countries, e. g. England, where little gold was in actual circulation. Witness after witness was asked to say if this was not so and it must be recorded to the credit of a large number of them, official as well as non-official, that while admitting the spirit of the above generalisations, they stuck to their view that the circulation of gold must be encouraged in every possible way, obviously with the object of giving India an effective gold standard in the course of time. The whole case of the Commission was made to rest on the supreme importance of maintaining the exchange, and it must now crumble down with the accumulation of a gold reserve of more than fifty crores. The gold reserve having been secured, there is no reason why steps should not be taken to evolve an effective gold standard. Gold notes may be issued and people may be familiarised with the use of a gold currency. When people come to believe that gold will be available whenever required, and in large quantities, they will get more confidence and will learn to use notes and other economical means of exchange. The last enquiry about the currency question was that made by the Chamberlain Commission

only six years ago, and though the trend of the questions put to witnesses who gave evidence before it was, as it were, to get out of them the admission that the development of an effective gold standard system in India was not needed, experts like Mr. Newmarch, Mr. Bhupendra Nath Mitra, Mr. Webb, Mr. H. F. Howard, Sir James Meston, Mr. F. C. Harrison, Mr. Dadiba M. Dalal and a publicist of the position of Sir Stanley Reed, advocated the promotion of gold currency in circulation as an important step towards their goal of a genuine gold standard. It will be a misfortune if under these circumstances, the question will be regarded as closed and the Currency Committee will conduct its inquiry on the assumption that the exchange standard is not to be touched. Before concluding, I shall extract from the evidence of four of the above named witnesses before the Chamberlain Commission a few brief remarks to show the lines of currency reform they urged :—

Sir James Meston:—"As I tried to put it, I look upon the increased circulation of gold, the greater familiarity of the people with gold, as an educative measure. I do not look upon it as an end in itself. I think that gold will be the line through which we will in India arrive at a more economical form of currency by a more economical treatment of the people's wealth and resources."

Mr. F. W. Newmarch:—"I cannot help thinking that the more gold supercedes silver in circulation, the smaller is the necessity for coining silver and the whole circulation gets more nearly on a gold basis."

Mr. F. C. Harrison:—"No. I look at the ideal for India to have gold as a convenient unit for the purposes of their transactions, to have enough gold in its currency

so that we can abolish this system of an exchange standard. ..... I say it is a pity that the monetary arrangements of a very large country should be dependent upon the monetary arrangements of another, and I think essentially the exchange standard system as hitherto worked has always been this that England works practically the money of India, and I would prefer that the money of India worked automatically."

Sir Stanley Reed:—"I should carry my wishes so far as to desire that the Indian Government should actively stimulate the circulation of gold and notes."

P. S.—Since writing the above, I have seen B. F. M.'s reply in this morning's *Times*. He begs the whole question and misses the true issue in describing the lengthly process of coining new rupees. His help to famine stricken people would be the advice, "My dear friends, you must have first a good supply of food and you must produce it before relief operations can be undertaken." It is a pity the Government of India did not profit by B. F. M.'s prescription of having first 'a good supply of new rupees ready' when during the war the country suffered from a famine of the media of exchange. As regards Japan, if even a visit to that country could not show him the difference between a gold standard and a gold exchange standard, nothing will, and the task must be given up as hopeless.

VIII.

THE SITUATION.

" A sound system of currency must be automatic or self-regulating. No civilized Government can undertake to determine from time to time by how much the legal tender currency shall be increased or decreased, nor would it be justified in leaving the community without a fixed metallic standard of value even for a short time. It is a mistake to suppose that any European nation has rejected silver as a standard of value without substituting gold."—Government of India's reply to the Bengal Chamber of Commerce, 9th February, 1877.

The subject of the present position and the develop ment of Indian currency and exchange has not attracte that public attention in this country which the subjec deserves. The scarcity of metallic currency, the dis count at which currency notes were exchanged by certain class of people and the enhancement of the rat of sterling exchange, have indeed been topics of com ment in the press and outside for some time past, an loud complaints have been heard from all sides in tha connection. But no systematic and fruitful discussio of the subject has taken place, and people have apparent ly left Government to make the best of a bad bargair The reason for this is not far to seek. There are ver few men competent enough to handle the currency pro blem which even experts find it extremely difficult t tackle. Ordinary people know and care little about th exchange question. And this is but natural. They fee that every thing is all right so long as they get a suffi cient suply of metallic currency; and they are no expected to bother their heads about the gold value o

the rupee and the rate of sterling exchange. But apart from convenience of internal exchange, the character of the currency system of a country has very important and far-reaching effects upon the nation's trade, industry and economic development. That is why for generations prolonged discussions have taken place in all parts of the world over the subject, and it is doubtful whether controversy has raged more furiously round any other topic.

The war threw the currencies and exchanges of the whole world into a confusion, and the task of restoring them to normal conditions has been taken up in the leading countries. The belligerent nations experienced great difficulties in maintainiug their foreign exchanges and had to resort to ingenious expedients for the purpose. The supply of gold was limited and was conserved by each nation, huge quantities of paper and also silver money were issued without an adequate gold backing, and the gold standard was practically abandoned. The Indian system and practice in this respect could not escape the effects of the war. The unexpected rise which took place in the price of silver upset the Indian system, and it was propped up by temporary measures designed to adjust the gold exchange standard to the changed currency conditions. The makeshift could not be regarded as a satisfactory substitute for the permanent system, and it became necessary for Government to reconsider the whole position. The discussion should have taken place long ago, and Government should have prepared itself for readjustment even before the conclusion of the armistice The India Office perhaps thought that things would adjust themselves in course of time, and that there was no hurry about the matter. This attitude of 'wait and

see' was probably changed into a decision to appoint a committee to go into the whole question of the Indian currency system and practice and to make recommendations with regard to any modifications that might be deemed necessary, on account of the persistence of abnormal conditions, particularly the high price of silver, and the consequent desirabiliy of early readjustment. The terms of reference to the Indian Currency and Exchange Committee, which has been recently appointed, make it abundantly clear that the Secretary of State for India wants that the question of establishing a gold standard in this country should not be reopened and that the proposed inquiry should be conducted with a view to recommending measures designed to rehabilitate and strengthen the existing gold exchange standard. The committee thus has its hands tied with respect to the basis of India's currency system and has complete freedom only to range over the details of a cut and dried policy. We are as anxious as the Secretary of State and the Government of India to see a speedy end put to the present uncertainties of the exchange situation and the enormous difficulties of the currency position. Our system and practice must be examined in the light of the experience of war times, and suitable modifications must be introduced therein to adjust them to the changed conditions. The report of the Chamberlain Commission has, however, become practically obsolete, and questions concerning the size and location of the gold standard reserve, the fiduciary issue of notes and the note reserve, and the circulation and minting of gold coins must all be reconsidered. The rise in the price of silver and in the intrinsic value of the rupee above the pre-war rate is an altogether new problem which the Currency Committee will have to tackle.

But, we see no reason whatsoever why the Committee should have been instructed not to go beyond the limits of a gold exchange standard.' Nine to ten, the Committee would have repeated the verdict of the Chamberlain Commission in this respect. It should, however, have been given the freedom to recommend measures calculated to develop the gold standard in India, if it chose to do so on the strength of evidence recorded by it. Conditions have changed since the time of he Chamberlain Commission's inquiry, and they are perhaps more favourable than ever before to the gradual introduction of an effective gold standard. We fail to understand, therefore, why the Committee is precluded from considering the probability of a change in the standard proving desirable and successful in the near future.

Opinion is no doubt divided on this question in India itself, and there are some people who would be content with a perfected gold exchange standard such as is contemplated in the proposed inquiry. It was equally divided when the mints were closed in 1893, and when the Fowler Committee recommended the adoption of the gold standard. Nor was it unanimous at the time of the inquiry of the Chamberlain Commission. Division of opinion is, therefore, no reason why there should be no thorough discussion as to the evolution of a sound currency system for India. People apparently feel that the gold exchange standard has come to stay and that discussion and agitation in the matter are bound to prove futile. Others perhaps think that India has got on well, on the whole, with the existing system and practice and that what is required is the mere adjustment of details which the Committee is going to consider. We deplore this apathy and self-satisfaction,

holding as we strongly do that the economic development of India requires a radical change in the existing system and practice connected with our currency, foreign exchanges and banking. We are anxious to see India endowed with a currency and financial system which is best suited to changing conditions of her trade and industries and the requirements of her economic progress. The gold exchange standard is very good for a dependent nation with a small foreign trade, with heavy foreign obligations it has annually to meet and with an inadequate balance of trade in its favour. But what is India's position to-day? We have more than fifty crores worth of gold accumulated in the standard reserve in London; and crores belonging to the paper reserve are in sterling securities there. For years before the war, we imported crores worth of gold annually in spite of heavy sales of council bills. The sovereign is legal tender in India, and a gold mint was established in Bombay some time ago. What justification is there, under the circumstances, to maintain a gold exchange standard in India and to make it stable? Why should the gold standard which was recommended by the Fowler Committee and accepted by Government as the goal of its policy twenty years ago, be now definitely discarded? What has happened in the meanwhile to show that it is an impossible and undesirable goal to be kept in view and to be steadily worked up to? There is little analogy between the conditions obtaining in India and those prevalent in the Philippines, the Straits Settlements and in Mexico, where the exchange standard has been adopted. And yet we are asked to follow their example and not think of an effective gold standard even as an ideal of our currency policy!

IX.

A LITTLE HISTORY.

"You have to take into consideration the change which you are introducing between the classes in India, and the change which you are introducing in respect of the public debt in India and generally in respect of the economic situation in India; and you would not be justified in trying, by reducing the quantity of rupees and giving an artificial value to rupees, to screw it up to 1s. 8d. or 2s. The raising of the rupee above its intrinsic value is a tax not merely upon production ...... it is an additional tax on the agriculturists and the rent payers."—Leonard H. Courtney in his evidence before the Fowler Committee.

Gold is the standard of value and of payments in all the leading countries of the world to-day. But that was not always so. Both gold and silver were coined and were in circulation at a certain well-defined and well-known ratio. Supplies of the metals were not uniform but varied from time to time, and the circulation of the gold and the silver coins increased or diminished in different proportions at different periods. It was thus not easy to maintain the legal ratio when the actual ratio in the market fluctuated. About the close of the 18th and the beginning of the 19th century, a great currency reform was inaugurated in England and gold was legally established as the standard of value, silver being relegated to a subordinate position, to be used only for subsidiary coins which were legal tender only up to a small limit. Other countries, however, continued on the basis of the double standard, and nations on the European continent formed themselves into the Latin Union with the object of taking concerted action in de-

fence of the fixed ratio between the values of gold and silver. The maintenance of the ratio proved an extremely difficult task, and when Germany and other nations followed England's example after the Franco-German war and adopted gold as their standard, the countries of the Latin Union, one after another, had to close their mints to the coinage of silver while continuing to maintain the full legal tender character of the white coins. A mass of silver was driven into these countries, being discarded by the gold standard nations, and increased their embarrassment. A number of conferences were held with a view to consider the steps that might be taken to rehabilitate the double standard, but no agreement could be arrived at. In America strenuous efforts were made by means of the Bland and Sherman Acts, to arrest the growing fall in the gold value of silver but proved futile. Ultimately the gold standard was adopted by all the nations; and mints were closed to the free coinage of silver. There was a mass of silver coins in circulation in France and other countries and they had to be maintained as legal tender money. This system was not thus a full gold standard and was hence called the 'limping standard' as distinguished from the arrangement prevalent in England where silver coins were tokens but not full legal tender.

What was the situation in India, in the meanwhile? Gold and silver coins had been minted and had circulated side by side in this country for centuries before the advent of British rule. Under the East India Company, however, silver was made the sole legal tender in 1835, and in 1853 gold was completely demonetised. Several Government officials and commercial bodies pressed for the use of a gold currency by the side of the silver rupee,

but the proposals were not accepted. During the seventies and the eighties, the Government felt very acutely the effects of the fall of silver in comparison with gold, and schemes were formulated for relieving the situation. The trouble of Government arose in this wise. The Government of India had to meet annually certain fixed gold liabilities called the 'home charges.' Its revenue was collected in silver rupees, and as the price of silver and, therefore, of the rupees fell in comparison with gold, more of the coins had to be given, year after year, to procure and pay a stated quantity of gold. Fluctuations in the gold value of the rupee, that is to say, exchange, caused inconvenience to merchants and loss to all those who had to make remittances abroad. Not only were the budget calculations of Government upset, but there were deficits which it was difficult to meet with additional taxation. Government, therefore, proposed that the gold value of the rupee should be fixed by the closure of mints and that the rupee should be made a token coin, being endowed with a fictitious gold value for the purposes of exchange.

The British Treasury to which the proposal had been referred, strongly opposed this kind of tampering with the Indian currency and pointed out that by artificially raising the value of the rupee, the Government of India would only transfer the burden of the loss on exchange to the shoulders of the people. On behalf of the people, who deprecated any change in the currency system, it was contended that, on the whole, the country was not a loser by the falling or low exchange, and the real remedy to meet the difficulties of Government was a reduction of the home charges and not the artificial appreciation of the rupee. A committee was appointed to inquire into the whole question, and it recommended

the closing of the mints and thus endorsed the principle of the currency policy advocated by the Indian Government. It is necessary to grasp clearly the essence of this change recommended by the Herschell Committee in 1893. The closure of the mints meant the abandonment of the silver standard. No one had now the right of taking silver to the mints and have it coined into rupees. By regulating the supply of rupees Government was to push up the value of the rupee in gold and maintain it at a fixed level. By making rupees scarce, Government did succeed in steadily raising their exchange value, and the Fowler Committee appointed to advise as to what further steps should be taken, recommended the establishment of a gold standard and the making of the British sovereign a legal tender along with the token rupee The advice was accepted, the exchange value of the rupee was fixed at 16d.; the sovereign was made legal tender, and Government undertook to give 15 rupees in exchange for a sovereign without assuming the responsibility to give gold when rupees were tendered. The rupee now became a note printed on silver and its artificial value was maintained by Government's control over the supply of rupees. The object of the Committee was the effective establishment of a gold standard in India with a gold currency in circulation and rupees as subsidiary coinage. It stated :—

> "We are of opinion that the habit of hoarding does not present such practical difficulties as to justify a permanent refusal to allow India to possess the normal accompaniment of a gold standard, *viz*., a gold currency. We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that at the same time the Indian mints should be thrown open to the unrestricted coinage of gold on such terms and conditions as govern the three Australian branches of the Royal Mint. ... Looking forward as we do to the effective estab-

lishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption. Under an effective gold standard, rupees would be token coins, subsidiary to the sovereign. But existing conditions do not warrant the imposition of a limit on the amount for which they would constitute a legal tender; indeed, for some time to come no such limitation can be contemplated."

Government accepted the policy laid down by the Fowler Committee, but drifted away from its principles in the course of years, in the various measures it took in connection with the maintenance of exchange so that at last the persistent criticism levelled against its departures, forced it to appoint a Royal Commission to inquire into the whole position. The terms of reference to the Commission thus appointed in 1913 and presided over by Mr. Austen Chamberlain, were :

"To inquire into the location and management of the general balances of the Government of India; the sale in London of Council Bills and Transfers; the measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance of or supplementary to the recommendations of the Indian Currency Committee of 1898, more particularly with regard to the location, disposition and employment of the gold standard and Paper Currency Reserves; and whether the existing practice in those matters is conducive to the interests of India; also to report as to the suitability of the financial organization and procedure of the India Office; and to make recommendations."

Leaving aside for the moment all matters other than the goal of India's currency policy, we may state that the Chamberlain Commission observed that the measures taken by the Government of India for maintaining the exchange value of the rupee were "necessarily and rightly rather supplementary to, than in all respects directly in pursuance of the recommendations of the

Committee of 1898 ", and expressed satisfaction at the way in which the policy had been shaped during the thirteen years which preceded its inquiry. In effect the Commission gave its verdict against an effective gold standard which had been contemplated by the Fowler Committee and in favour of the continuance of the gold exchange standard, under which there was no need for the circulation of gold coins in India and the rupee remained a full legal tender token coin.

X.

THE PROBLEM.

"I will now show what this lack of financial statesmanship has cost India. In 1864 the universal demand of India was that the Sovereign should be made the standard for all India. If this had been done, India and England would have had a common standard unit, which is the sole means by which a fixed Ratio of Exchange can be established between the two countries, subject of course to the usual fluctuations of commerce .... But the Governments, Indian and Home, having let that opportunity pass away, the Rupee has been continually falling until it now rests somewhere about 1s. 4d. ... ... Thus the fall of the rupee from 2s. to 1s. 4d. costs the people of India £ 8,000,000 yearly in taxation for the sole purpose of meeting her home charges. Such is the penalty which the people of India have paid for the ignorance of her Governments of the rudiments of Economics."—Henry Dunning Macleod.

The Chamberlain Commission discussed a number of questions which had been raised by the critics of Government's policy, such as those concerning the size and the location of the reserves, the large cash balances which had been allowed to accumulate in the treasuries, the purchases of silver, the sale of council drafts, the financial management of the India Office and so forth. But the main question, to which the above may be said to have been subsidiary, related to the gold policy of Government. If a consistent and vigorous effort had been made to carry out the recommendations of the Fowler Committee, many of the points of complaint would not have arisen at all; they would not, at any rate, have assumed the serious importance which they actually did. The sterling exchange had been artifi-

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cially fixed at 16d; to maintain it at that level, a gold reserve had to be accumulated; the only way in which the stock of gold could be built up was to set aside the profits of the rupee coinage; as the fund was intended to support exchange and must be utilised for supplying gold in London, where it would be required in a time of crisis, it was located not in India but outside it; if the gold reserve was to increase rapidly, the progress of the coinage of rupees must not be allowed to be hampered by any large circulation of gold in the form of coins, that is, the sovereign must not compete with the rupee in circulation; the export of a very large quantity of gold and sovereigns to India was not necessary and, therefore, the India Office could divert the flow by selling council drafts beyond the amounts actually required by the Secretary of State for his normal disbursements; the funds thus diverted were to be used for the purchase of silver and the reduction of debt. A part of the Paper Currency Reserve which was really meant for the encashment of notes in India was to be held in London and was there to be used for the support of exchange and for buying silver. This was the chain of reasoning which Government consciously or unconsciously adopted, and the result was that they developed not a true gold standard, as recommended by the Fowler Committee, a standard under which the rupee would have steadily come to occupy its real position, *viz.*, that of a subsidiary coin, and gold would have largely circulated in the country and would have become the standard of payments and measure of values, but an exchange standard under which the rupee was to remain the principal coin of the country and it was to be linked up to gold by the gold reserve which was to be used for maintaining its sterling value.

This is the way in which Government had drifted towards a policy which had not been contemplated and which had not been sanctioned by any authoritative body. The Chamberlain Commission supplied that want and put the seal of its authoritative approval upon the Indian currency system as it had developed. It laid down that things in the currency world had shaped themselves in a way which could not have been contemplated by the Fowler Committee, whose recommendations had, therefore, only a limited application. It had been proved by experience that a gold currency in circulation was not required to maintain the exchange value of the rupee as that function could be more effectively performed by the gold accumulating in the gold reserve. The Indian people did not want a gold currency and the small amount that they did want, was being supplied already. What was wanted was silver, and as a gold currency was wasteful and was not as useful for the support of exchange as gold in the reserve, it must not be encouraged. On the other hand, the circulation of the more essential form of currency, *viz.*, notes, ought to be promoted.

The most important point to be noticed here is this. A good currency system must be automatic and whatever standard is adopted, the principal national currency must be convertible into it. Before 1893, this standard was silver and the rupee could be covered into silver and silver into rupee, at any time. The value of India's imports and exports was measured in silver, which was, therefore, the national measure of values in internal and external exchange. It was only the consequent loss which Government had to suffer in converting a part of the revenue they received in rupees in remit-

ting home charges, which led to the closing of the mints and the adoption of the gold standard. The Fowler Committee took the right view in expressing the opinion that India must steadily advance to a true gold standard, which would ultimately be as automatic as the old silver standard. The exchange standard which has now been permanently set up and has been pronounced to be completely satisfactory, has indeed given to India stability of the sterling exchange and under it Government has no longer to face risk of losses on the exchange. But what about the country as a whole? It has to pay the same quantity of its produce to England for the home charges, whether its value is measured in silver or in gold. A certain quantity of gold has to be laid down in England in liquidation of our obligations to that country, and the country must buy that gold with its produce. This is the fundamental fact from which there is no escape. We may say that our rupee is equivalent to 16d. or 20d; that fact however remains. By artificially raising the sterling value of the rupee above its value as so much silver, we may be able to discharge our foreign obligations by paying a smaller amount of rupees But, at the same time, we must receive a smaller quantity of rupees in the same proportion, for the obligations of foreign countries to us. The present system, therefore, means indirect taxation of the people, loss to producers and gain to importers. By its unautomatic character, it leaves the door open to inflation of the token currency and the evils which are due to it.

This unsatisfactory system is now going to be perpetuated. The anxiety of Government is concentrated upon giving the rupee an exchange value, which will

have an element of permanence in it. The bullion par of the rupee is 43d. per ounce as the price of silver, that is, the value of the silver contents of the rupee is 16d. with silver at about 43d., and Government can afford to give one rupee for 16d. only so long as that level is not passed. But during the war, silver steadily rose and, therefore, Government had to adjust the exchange value of the rupee. It was successively raised to 18d. and 20d. If the price of silver rises higher than this level of its exchange value, it becomes profitable to melt it and sell it as bullion. The rupee contains 165 grains of pure silver, and with silver at 53·8d. the exchange value of the coin must be not less than 20d. Silver is being quoted to-day at a little more than 54d. per oz. The position of the rupee is, therefore, critical, and it can be remedied only by raising the rate of exchange. What the future price of silver will be and at what level it will become steady, no one can say. Under our present currency system, therefore, Government must place the sterling value of the token coin at such a high level that the rising waves of silver prices may not reach it. The Currency Committee will have to decide what level this will be; 24d. seems to be the height at which the rupee may be regarded as unassailable, because the bullion par at that rate will be 64¼d. per oz. of silver.

The same object can be attained in another and a less objectionable way. Reducing the silver contents of the rupee will have the same effect as raising its sterling value. You raise the exchange, because you can not afford to give rupees at the old rate when silver has appreciated. Then you can either charge more in gold for the same rupee or give a lighter rupee for the same old gold price. The latter course is less objectionable,

because then you do not change the unit of value; you only alter its size and form. In the first case, on the other hand, you alter the unit of value, the purchasing power of the rupee, by saying that the same rupee will buy 24d. in gold instead of 18d. or 16d. as before. This causes disturbance in the relations of debtors and creditors and exposes producers to loss and inconvenience. The Committee will have to decide the practical difficulties in the way of the adoption of the plan of reducing the silver contents of the rupee. Whatever plan is adopted, it must, however, be a temporary measure, a mere palliative and will not be incompatible with the establishment of a genuine gold standard in India, as under the latter also the rupee must be a token coin. The larger and the fundamental question, however remains: Are we going to have perpetuated this gold exchange standard under which the bulk of our currency will consist of token coins? Is it not possible to evolve a better and a more automatic system? We cannot regard as impossible a reform of our currency on the lines recommended by the Fowler Committee. But the Secretary of State is content to leave things where they are so far as the question of gold standard is concerned, and he wants a remedy for the high price of silver. The following are the terms of reference issued to the Currency Committee :—

> To examine the effect of the War on the Indian exchange and currency system and practise and upon the position of the Indian note issues, and to consider whether in the light of this experience and of the possible future variations in the price of silver, modifications of the system or practice may be required; to make recommendations as to such modifications and generally as to the policy that should be pursued with a view to meeting the requirements of trade to maintain a satisfactory monetary circulation and to ensuring a stable gold exchange standard.

XI.

THE SOLUTION.

"The great increase of token money within our time must be regarded as a truly retrograde mevement in the domain of currency. Such money should play a very subordinate *role* in the currency of any country; almost the whole of the money should be standard money. The *role* of the Government should in the main be confined to guaranteeing the identity of the coin with a certain quantity of precious metal of a certain fineness."
Dr. N. G. Pierson: Principles of Economics.

From the terms of reference issued to the Currency Committee, which we quoted in our last article, it would appear that its enquiry is not expected to be comprehensive, and Government wants expert advice only as to the method in which the Indian exchange and currency system may be rehabilitated after the storm and stress through which it passed during the time of war. It is obvious that certain modifications will be found necessary in the system and practice owing to the developments forced by war conditions, which could not have been anticipated by the Chamberlain Commission. The expansion of note currency which has gone up above 160 crores of rupees and the total investment of about 98½ crores out of the Paper Currency Reserve, mainly in British securities, will demand careful consideration, especially as to the way in which paper circulation will be reduced and the size of the fiduciary portion of the Reserve that may be safely fixed for the future. The Gold Standard Reserve has now reached sufficiently large proportions,

and it has to be decided how the future profits on rupee coinage will be utilised. The Chamberlain Commission did not fix any limit to the size of the fund, because at the time of its enquiry it was comparatively small and the experience of the exchange crisis of 1907–08 was not regarded as an adequate guide as to the amount which might be required in a similar crisis in future. The report stated: "...and we do not think, therefore, that it would be useful for us to attempt to lay down at present any hypothetical limit beyond which additions to the Gold Standard Reserve should cease. We are accordingly of opinion that, even after allowance is made for the ear-marked gold in the Paper Currency Reserve, the suggested total of 25,000,000 *l.* is insufficient." The total now exceeds that figure by over £ 10 million, and the question is, should Government go on indefinitely adding whatever profits may accrue from the coinage of rupees, to the gold, or should the future profits be used in some other way ?*

A committee appointed to consider the question of Indian railway finance advised the Secretary of State in 1907 that, the Gold Standard Reserve and the gold in the Paper Currency Reserve being adequate to meet any contingencies that might arise with regard to the exchange, a portion of the profits on the coinage of silver

* The balance of the Gold Standard Reserve on 31st July, 1919 amounted to £ 36,260,460 and was held as follows :—

1.	Gold in India	Nil.
3.	Cash placed by the Secretary of State at short notice	... 6,016,604
3.	British Government securities (value as on 31st March, 1919)	...26,652,225
4.	British Government securities since purchased ...	3,591,631
	Total	...36,260,460

should be used for capital expenditure on railways instead of being invested in British Government securities. The Government of India did not approve of the suggestion, but Lord Morley decided to adopt it, and about one million was thus diverted from the profits which should have gone to swell the gold reserve. With reference to this departure from previous practice, the Chamberlain Commission emphatically laid down the following proposition: "While, therefore, looking beyond the immediate future, we hold that the Government of India ought to be alive to the possibility of the aggregate sterling reserves eventually reaching an unnecessarily high figure we recommend that the whole profits of the silver coinage, together with any interest accruing from investments or loans made from the Gold Standard Reserve, should for the present be continued to be placed to the credit of that Reserve, and that no diversion similar to that made in 1907 for railway development should be under any circumstances permitted until further experience allows of a much more accurate definition of the calls which the Reserve may have to meet than is at present possible."

We feel that the aggregate sterling reserves of the Government of India have now reached a sufficiently, if not unnecessarily, high figure and the time has come to decide how the profits on future rupee coinage should be dealt with. It may possibly be contended by some that the recent war was not an adequate test of the sufficiency of the gold assets of India, because this country gave credit instead of receiving it from England, owing to the peculiar relative positions of the two in the matter of the exchange of commodities. Others may press for the utilisation of the profits from coinage on

capital expenditure on railways, a diversion which was strongly deprecated by the Chamberlain Commission. We are inclined to the view that these profits should be looked upon as a part of the normal revenue of Government and should be available for expenditure on national education and other reforms so urgently needed.

The most important problem that requires immediate attention, however, is the fixing of the sterling value of the rupee, and we have already discussed the two alternative courses that are open before Government. Whether we have the gold exchange standard as at present or an effective gold standard, such as we strongly recommend, the rupee must be a token coin and its nominal value must be fixed at a level above the value of its bullion content. It is difficult to foresee the course the price of silver will take; and it will be wise in any event to put the value of a token coin sufficiently high so as to protect it from the melting pot. The easier course seems to be to raise the exchange by 2 or 4d.* but it will prove disastrous to the rayat, and we would decidedly prefer a light weight rupee. And we can allow this as a merely temporary measure. It will indeed be something if the whole seignorage on rupee coinage is returned to the public by its being added to the revenues of Government to be spent on the amelioration of the condition of the cultivating and other producing classes who will suffer by the rise in exchange. It is, however, impossible to accept as a permanent arrangement a system under which almost the whole of the country's currency consists of a token coinage. You may put whatever sterling value you choose upon the rupee; but

* The exchange was again raised in the second week of August in response to a further rise in the value of silver to 58d. an oz.

let us have a true gold standard, and let the token currency tend more and more to be what it ought to be under a good system, a subsidiary currency merely.

It is for this reason that we earnestly desire that the Currency Committee ought to be asked to go beyond mere palliatives and to discuss the very basis of our system. The Chamberlain Commission was obsessed by the paramount need of the maintenance of a stable exchange and was of opinion that the people received what currency they wanted, gold or silver, under the existing system and that, therefore, it was unnecessary to encourage the use of gold coins. Whatever we may do, gold bullion and coin will persist in coming into India in part payment of foreign debts to her, and we shall have the anomaly of a country with such enormous gold reserves being on the exchange standard basis! Not to speak of gold bullion, India imported British gold coins to the extent of £ 97 million during the years 1901-13. The net imports were £ 73 million and the absorption by the public was £ 60 million. The absorption of sovereigns was just equal to the absorption of rupees. The sovereigns are legal tender, but, circulating with the rupee tokens, they are naturally hoarded or melted. And when this happens we are told that India is a sink of the precious metals and that the people do not want a gold currency. The arguments urged by the Chamberlain Commission against the encouragement of gold currency and the development of an effective gold standard require reconsideration.

The problem of establishing a State or central bank and the proper mobilization of India's money for a healthy development of Indian trade and industries also needs prompt attention. The relations of the Indian money

market and the Reserve Treasury system of Government were considered by the Chamberlain Commission, and certain useful recommendations were made by it. But that question must be considered again along with the unsettled problem of a central bank. The experience of war times will prove a very helpful guide in this matter. If the precious metals are to be more economically used by the public, if our industries are to grow and thrive and if our wealth is to increase, organization of banking on a large scale and on sound lines is essential. Vested interests or inertia ought not to be allowed to stand in the way of the solution of the banking problem and all available capital must be used for the promotion of India's material welfare. The location of the Gold Reserve and other sterling assets of India in London has been strongly criticised in the past and that aspect of the problem also may be reconsidered in the light of recent experience and the needs of the country.

XII.

PEOPLE DO NOT WANT IT!

"There is a remarkable fact which presents itself to me in looking back at all this again—because I know it before,—namely that all through those papers, and all through the consideration and discussion of this question, there is hardly one single suggestion from any one with a knowledge of India—I doubt whether there is any suggestion at all—that a gold currency would not be popular in India if other circumstances rendered it desirable. I therefore venture to think that, if the history of coinage in India is considered the balance of authority shows that there is no ground for rejecting a gold currency as being unsuited to India"—Earl of Northbrook.

How often has the demand for progress in this country been met with the argument, which appears unanswerable to those who use it, that the improvement urged is not desired by the mass of the people! It may be the introduction of compulsory primary education or the transfer of larger political powers to the Legislative Councils or the imposition of protective duties on imports and exports or even the legalization of inter-caste marriages: the reform will be opposed on behalf of the people and in their supposed interests. The masses in India are voiceless and ignorant and we all speak in their name when questions of political, social and economic importance are under consideration; and the decision in each case will, of course, be right or wrong according as those who speak for the people do or do not correctly represent their wishes and interests. Rival claims to spokesmanship are advanced by officials and

non-officials and there are serious differences even among the latter as to what the masses want and what will ultimately conduce to their best interests. The educated classes and the political leaders are generally of one particular view on questions of national interest, but in certain matters there may be no such agreement even among them, though these matters are usually concerned more with the details than with important principles.

The reform of the Indian currency system is a question of this type, and for over a generation there has been any amount of controversy over it. We have had bimetallists, supporters of the silver standard, advocates of the gold standard and defenders of the exchange standard in India. The votaries of these different currency creeds are to be found promiscuously scattered among officials and non-officials, though latterly what is called the purely Indian view has come to be clearly distinguished. A Committee having been recently appointed by the Secretary of State to enquire into the effects of the War upon the Indian currency system and practice and to make recommendations with regard to the modifications required therein in the light of the experience of the period of War, it has become necessary for those who have devoted any attention to this subject to express their views and make suggestions as to the lines on which reforms must be carried out in the immediate future. It is a very complicated and controversial subject, nevertheless, one of supreme importance from the point of view of the economic progress of India. Nothing can be more natural than the desire of the Secretary of State to have the Indian currency and exchange arrangements examined by

experts, particularly on account of the embarrassment which the abnormally high price of silver has caused to the Government of India during the past two years. The question of the rehabilitation of the British currency system was taken up in England long ago, and the reports of Committees of enquiry appointed there, have been out for months past. We, in India, are never in a hurry about such matters, and perhaps the Secretary of State could not have found for his investigation the required experts to work in London when they were engaged in other enquiries or more important activities. The maintenance of the exchange value of the rupee has been the corner-stone of the Indian currency policy for the past twenty-five years, and with slight failures here and there, Government has kept up the parity of 16d. to the rupee since the new system was inaugurated in 1899. The parity was recently shaken by the rise in the price of silver and of the rupee above the fixed limit, and Government now wants the new Currency Committee to advise it as to how it should put its house in order in the light of the experience of War time. Government seems to be anxious to have no radical changes and wants only to adjust the existing machinery to the conditions which have unexpectedly arisen and which are likely to prevail in the near future.

Before 1893, India had the silver standard and silver could be freely coined into rupees at the Indian mints. In that year the mints were closed with the object of enhancing the gold value of the rupee, and in 1899 the same policy of artificially fixing the exchange was taken a step further by Government's declaration to give 15 rupees for every sovereign tendered. The sovereign was made legal tender and the rupee was reduced

to the position of a "token" coin. The Fowler Committee which recommended this policy, was clearly of the opinion that India must, in time, be endowed with a gold standard and its usual accompaniment, a gold currency. But the measures which the Indian Government actually adopted to carry out the above policy diverted it into channels which were ill calculated to attain the goal of an effective gold standard in India. The Chamberlain Commission which examined the question in 1913, thought that the system developed between 1899 and the year of its enquiry, was essentially the correct one, though it was not in pursuance of the aims of the Fowler Committee. India had not a silver standard though the bulk of its currency consisted of silver coins. It had not a gold standard because its principal currency was not convertible into gold at the will of the holder. It was the exchange standard under which Government gave 15 rupees for a sovereign and when exchange went below the fixed par, offered gold or sterling drafts on London. The Chamberlain Commission laid it down that this was a satisfactory arrangement for a poor and debtor country like India especially because under it the people got what they wanted, viz., rupees and even sovereigns were available when required. The new Currency Committee has now been asked to suggest modifications in the existing currency practice consistently with the maintenance of the exchange standard.

Those who plead for the development of the Indian currency system along the lines and towards the goal recommended by the Fowler Committee, are met with the argument that the Indian people, taken as a whole, do not want the change. It may, however, be perti-

mently asked: "Did the people want the closing of the mints? Did they want the legislation of 1899?" The Government of India pressed for the closure of mints because exchange was steadily going down and resulting in annual deficits. But there was a large volume of public opinion against the abandonment of the silver standard. From the people's point of view and in the direct interests of the masses the silver standard was quite satisfactory. It was pointed out at the time that the true remedy for the evil of a falling exchange was a reduction in our gold liabilities and in the fixed home charges and that fluctuations in the foreign exchange affected only a small number of people while a change in the standard of the country would prove detrimental to the mass of the population. The British Treasury to which the proposals of the Indian Government with regard to the closing of mints has been referred, set its face, in 1876 and in 1886, against the suggested change and argued that any relief which the Government and those who had to remit money to England might receive as a result of the artificial fixing of the exchange, would be given at the expense of the Indian tax-payer. It is indisputable that the policy initiated in 1893 and completed in 1899 transferred the losses of the Indian exchequer to the shoulders of the masses who were called upon to pay heavier indirect taxation. In opposition to the demand that India should have a sound and automatic currency it is often said: "Oh! the people know nothing about exchange; they have never heard about it." But that is exactly the reason why no steps should be taken which are calculated to throw additional burdens on them. At its session in Madras in 1898, the Indian National Congress passed a resolution in the following words: "(a) That having regard to the fact

that the principal cause of the loss by exchange is the steady growth in the demands on India for expenditure in England, this Congress is of opinion that any artificial device for meeting that loss, either by changing the currency at a heavy loss or contracting the internal currency, must add to the pressure on India's monetary resources and to her trading disadvantage; (b) that the only real relief lies in carrying out practically the principle, affirmed by competent authorities, of England bearing an equitable share of that expenditure; (c) that the Congress regrets that, save Mr. Romesh Chunder Dutt and Mr. Merwanji Rustamji, competent and qualified Indian representatives have not yet been invited as witnesses to represent the Indian view of matters on the subject which now engages the attention of the Currency Committee of which Sir Henry Fowler is the President."

Public protests and wishes were thus disregarded and the exchange standard was established in India. It would have been some consolation if the policy of endowing the country with an effective gold standard had been steadily evolved. But as we have shown above, the Chamberlain Commission concluded that the Indian people did not want a gold currency as if they had ever approved the abandonment of the silver standard and the introduction of the exchange standard! True, the masses in India have no use for a gold currency in their daily transactions because their average individual monthly wage is not enough to buy a sovereign and they want rupees for the ordinary needs. But this is not a peculiarity of India. In the wealthiest nations of the West, the masses ordinarily use silver though an effective gold standard prevails there. But nobody has suggested that in England, for instance,

the gold standard should be abandoned. The point is this. The exchange standard is not natural and automatic. Under it the values of imports and exports are calculated by an artificial measure which inflicts burden upon producers of commodities. The stability of foreign exchange has to be bought at a high price which must be paid by the poorer classes. Let us, therefore, have either a pure silver standard or a pure gold standard. The present system will not do. How can it be said that people do not want an effective gold srandard because the masses will not use gold coins ? With equal cogency may it be contended that people do not want that Indians should be given higher posts and should be appointed in larger numbers as members of the Executive Councils, because the masses are not likely to fill these posts ! In one breath we are told that India is growing richer, that incomes, wages and prices are increasing, that her trade is rapidly expanding and that she has been importing large quantities of gold year after year and in the other her poverty is urged as a fatal objection against the evolution of an effective gold standard. Much water has flowed under the bridges since the report of the Chamberlain Commission was published. We have accumulated a gold reserve of fifty crores in England and an adverse exchange, even if it continues for three successive years, has been effectively guarded against. We have normally a favourable trade balance and our imports of gold are large. It passes one's understanding why, under these circumstances, a further step in advance towards a genuine gold standard should not be taken. At any rate, there ought to be nothing to preclude a comprehensive inquiry into the whole question of Indian currency and exchange. India wants more and better banking, greater

facilities for industrial and commercial development and an automatic system of currency. What the people want or do not want must be decided by those who are in a position to form and express an opinion on this subject. And this is not possible without a full enquiry and a free discussion. People must be taken to desire a thing which is calculated to promote their best interests. and a currency system which imposes upon them a burden, though indirectly, cannot be pronounced as one which they favour. If Government consider this question with an open mind, I hope they will also appreciate the desirability of shaping their currency policy in such a way that while the development will benefit the producing classes, it will cause no loss to their own revenues.

XIII.

A SOUND CURRENCY SYSTEM.

"If anything, I would do something to encourage it (the popularity of gold coins). I would rather encourage it because I would reduce the position which we are in of having this large amount of currency which is token. I would rather have that replaced by some currency which has intrinisic value. In other words, I would let the people have the silver they want, and I would let people have the gold they want and what profits I made from the silver they want I would put into the gold and keep my gold."—F. C. Harrison.

"THE people of India must be given whatever currency they want, gold, paper of silver; and that is exactly the policy which Government in India has pursued during the past few years"—this is the burden of the song of the Chamberlain Commission's Report, the latest authoritative pronouncement on the subject of Indian currency. That Commission seems to have strongly persuaded itself into the belief that as the poor and ignorant masses of India wanted only rupees, the cry for an effective gold standard and the circulation of gold coins did not voice the feelings of the people of this country. We have already shown how erroneous this impression is and how unwarranted it is to conclude from the fact that the masses use and want only rupees, that India does not require a real gold standard. We shall now examine the case which the Commission has attempted to make out in favour of the maintenance of the *status quo* and on the strength of which the Currency Committee now sitting in London has been

asked to exclude the question of the gold standard from its inquiry.

The masses in every country will have no use for a currency of high value because their daily transactions are small. This is specially the case in India where the bulk of the people are extremely poor. What use can the majority of our population have for a gold coin, even a small piece, say worth Rs. 7½? They require coins of small denominations such as the rupee and its fractions. No one would dream of forcing a gold currency upon them, because that is an impossibility. A currency is not circulated among the people as charity, and the idea that the advocates of a gold standard for India want to force a gold currency upon the people, is ludicrous. In countries, where there is an effective gold standard, currency made of silver and bronze circulates on a large scale as it does in India. That currency is a token currency, its legal value being largely above the bullion value, and its legal tender quality is limited to a certain amount. In India the rupee is a token coin, but it is unlimited legal tender and is thus not a subsidiary coin as in other countries. The principal currency elsewhere is either a gold coin or paper convertible into gold, so that all values are measured there, in internal as well as in external transactions, in terms of gold, which is the metal adopted as the standard. In India, we have indeed adopted gold as our standard and the rupee is looked upon, for its value, as if it were made of gold. But it does not possess the market value it professes to have and cannot be exchanged for gold at the nominal value at the discretion of the holder.

This is the essential difference between the real gold standard and the exchange standard we now have.

The curious part of the situation is that the sovereign is legal tender along with the rupee and to that extent our currency arrangements are similar to those which prevail in France which has a gold standard but differ from the British system in which the silver coin is not unlimited legal tender. The revenue of Government is collected in rupees and all our transaction are carried on in rupees. The sovereign may be used as currency, if it is available, but its chief purpose is to measure values for foreign transactions. If you want rupees or notes redeemable in rupees, the only way to secure them is to tender gold or sovereigns in England or in this country to Government and receive the national currency. In other countries, notes are redeemed in gold ; not so here, as they are based on rupees. The sovereign was made legal tender in India obviously with the object of ultimately placing the Indian currency system on a gold basis. But what an interesting part does it play in the system as it has been developed during the past twenty years ! Gold bullion comes into India for being used for jewellery and in the arts, and sovereigns are imported to fill up the gap in the imports left after funds are brought into the country by means of Council drafts. Foreign debt owed to India must be liquidated year after year. When merchandise, Council drafts and bullion are not adequate to meet the debt due to us, sovereigns are imported and they may be exchanged for rupees and notes or pass into circulation as coin directly or through Government. This is the way in which, according to the Chamberlain Commission, the Indian people get the gold currency they want. But how can the gold currency thus obtained, remain in circulation ? When the token rupee and the note circulate side by side with the sovereign, the gold coin

will always be at a premium, and according to the famous economic law known as Gresham's law, will pass out of circulation. Then the opponents of the gold standard will point to this hoarding and melting of the sovereigns and say, " look how gold currency is wasted and is unnecessary in India! The people get a quantity of sovereigns and do not use them for purposes of currency." In no country in the world, will gold coins freely circulate if they are at a premium and if the people have no assurance of getting them whenever they want them. It is an economic paradox that when two coins are full legal tender, the inferior will drive the superior coin out of circulation. There is authoritative evidence, besides, to show that the sovereign is very popular in certain parts of the country and is used as currency. If sovereigns return to Government treasuries, it is said that that is a proof showing the unpopularity of the gold coin. If they are retained in the hands of the public, it is stated that they are hoarded! It is on grounds like these that the exchange standard is defended as the most suitable standard for India.

Then it is argued that in gold standard countries, gold coins are rarely used as currency. almost all the transactions taking place in cheques or notes. This is true enough, and no sensible person will deny the importance of the economy involved in the use of paper. But how is the consummation so devoutly to be wished, to be achieved in India? It will be many years before Indian people will get into the habit of using paper on a large scale and to ask them to use notes redeemable only in a token currency, is not certainly an effective way of educating them. It is only through a gold currency and paper based upon gold that the reform can be effected. Even in a country like

England where the bulk of the currency consists of cheques, and in continental countries where it consists of notes, large quantities of gold are held in the reserves of banks and also circulate as money. The pre-war amount of gold in the United Kingdom is estimated at 161·1 million pounds of which 82·8 million pounds were held by the banks and 78·3 million pounds by the public. The gold coin in that country increased from £100 million in 1903 to £113 million in 1910 or less than £2 million per annum. From the end of 1910 to the middle of 1914, the increase was estimated at £48·1 million or about £14 million per annum. The absorption of sovereigns by the public in India for all purposes, hoards, circulation and melting, during the 12 years, ending 31st March 1913, somewhat exceeded £60 million or was about £5 million a year and during the 4 years ending 31st March, 1913, the absorption by the public was £30 million. Under the existing system, sovereigns will and must be imported into India as we have shown above, and as they are legal tender, they will circulate to a moderate extent. But the system is half-hearted. Under the peculiar circumstances already described, the imported sovereigns cannot become a nucleus of an expanding gold currency, nor can they be a strong foundation for a genuine gold standard. Such a system cannot be regarded as satisfactory and permanent. Give India either a silver standard or a true gold standard. If the first is impossible, at least make an earnest effort to develop the second. It is a highly interesting and disconcerting situation that India is not given an effective gold standard though the country can command such large quantities of gold bullion and sovereigns, year after year! Foreign financiers are afraid that India's large absorption of gold will starve their money

markets as if India must subordinate her interests to the convenience of others ? But that absorption cannot be avoided. And if that is so, why not take full advantage of the peculiar position of the country and evolve in it a currency system based upon an effective gold standard ? The currency committee sitting in London is not, however, going to discuss this aspect of the problem and has been asked only to suggest temporary repairs to the Indian currency structure as it stands and as it has emerged out of the War. Mr. Montagu's plea for restricting the field of inquiry, put forward recently in the House of Commons, is absolutely unconvincing and there the matter stands for the present.

XIV.

PRICES AND EXCHANGE.

"A lower exchange gives the Indian exporter a higher rupee price for his produce, without raising the gold price to the foreign buyer, while compelling an importer of foreign goods to exact a higher rupee price to cover his gold outlay. A higher exchange on the other hand lowers the rupee price of native produce, while enabling the foreign importer to sell his goods cheaper. An appreciated exchange through its action on prices has thus a double effect on the trade balance, by checking exports and stimulating imports" - Robert Campbell and John Muire, (Members of Fowler Committee.)

The spirit of unrest which has prevailed in India for some time past and which burst out into acts of violence in several cases, has been attributed by many thinking persons mainly to the extraordinarily high prices of the necessaries of life ruling in the markets of the country. During the time of the war, owing to high freights and diminished output, prices of important commodities naturally soared to unprecedented heights, and owing to a keen demand for several classes of articles produced in India required for the vigorous prosecution of the struggle, there was a considerable rise in the prices of our raw materials and food stuffs. The congestion on our railways and the difficulty of internal transport and exchange contributed to the rise to an appreciable extent. The situation was rendered still more difficult by a failure of rains over a large part of the country last year, and famine conditions established themselves as the direct result of the shortage of food supply. It is expected that the position thus aggravated, will be relieved to a large extent by a

satisfactory rainfall during the current season and the consequent abundant supplies of food grains and other articles. There can be no doubt that food stuffs will become cheap if the country is blessed with seasonable showers of rain even though other conditions may not be as favourable as one would wish them to be. We give below tables showing comparative prices during the past five years :—

I. WHOLESALE PRICES.

General index number of wholesale prices.

(All articles).

Port.	No. of Articles	At the end of July, 1914 (pre-war level)	August, 1917	April 1918	August, 1918	April, 1919
Madras .	27	100	188	248	293	277
Bombay ...	43	100	179	231	260	216
Karachi ...	29	100	175	223	250	216
Calcutta ...	75	100	142	170	190	190
Rangoon ...	41	100	133	152	175	177
Average (unweighted)	...	100	163	205	234	215

II. WHOLESALE PRICES.

Index number of prices of food grains.

Port.	At the end of July 1914, (Pre-war level).	August, 1917	April, 1918	August, 1918	April, 1919
Bombay	100	100	145	174	182
Karachi	106	103	138	139	172
Calcutta	100	92	90	119	161
Madras	100	93	104	119	148
Rangoon	100	118	87	108	140
Average (unweighted)	100	101	113	132	161

III. RETAIL PRICES.

Index number of retail food prices.

Port.	At the end of				
	July 1914, (Pre-war level).	August, 1917	April, 1918	August, 1918	April, 1919
Bombay	100	119	133	148	185
Karachi	100	121	137	143	168
Madras	100	111	111	128	157
Calcutta	100	119	113	124	140
Rangoon	100	102	108	124	135
	100	114	120	133	157

The corresponding rise in the prices of the articles of food has been twice and thrice as large in European countries, while in countries at a distance from the theatres of war, it has been only slightly larger or in certain cases, even smaller. There is every likelihood of the prices of food stuffs in India going down as a result of good crops, though the general level of prices will remain at a level higher than that of pre-war times. Indian raw materials will fetch high prices in foreign markets and they will react on the general level in this country. Prices in European countries are not likely to fall materially during the next few years. What with labour troubles and the depreciation of money as also the destruction wrought by the war, cost of production has risen in those countries and they will not be able to place in the market commodities at prices much lower than those ruling at present. The high prices of imported articles will have their effect on general Indian prices. To what extent the amount of money in circulation in this country is responsible

for the rise in prices cannot be accurately estimated. But that the additions which have been made to the currency during the last four years, must have contributed to the rise to some extent is undisputed. The total amount of notes in circulation created another record in the beginning of July 1919, when it exceeded 162 crores and the issues of new rupees have been continuous, about 140 crores being added to the circulation in less than five years. Much of the rupee currency must, however, be idle and inert, being hoarded on account of its high bullion price and there is ground for believing that much of it must have been melted for the profit, which that operation was calculated to yield. The hoarded rupees will come into circulation sooner or later. But if a large quantity of the silver coins has gone to the melting pot, as seems to have been the case, that constitutes a diminution of the total amount of money and the effect of the circulating medium upon prices is, to that extent, minimised. The increase in note circulation is, however, large enough, and in India as in other countries, apart from special causes affecting the values of certain commodities, the quantity of money in the hands of people must raise prices generally when that quantity exceeds normal proportions to any appreciable degree.

Assuming, therefore, that the general level of the prices of commodities entering into the consumption of large classes of people will remain high and that the hardships of the mass of the people will be severe, can we devise any measures to counteract the detrimental effects of the phenomenon or to lower the level itself? High prices of necessaries of life and of raw materials are obviously an evil, though they may be overtaken by steadily rising wages and profits. In a thoughtful

article contributed to the *Pioneer* of 12th June, Prof. H. Stanley Jevons of Allahabad University, suggested a remedy for the evil of high prices, which has caused so much unrest and discontent among the mass of people in India. In view of the fact that it is the duty of Government to relieve the sufferings of the people due to high prices, he suggests that it should raise the sterling value of the rupee and fix it at 24d. Apart from his argument in favour of this proposal based on the ground of the desirability of working up to an unassailable stability of exchange, it is worth while considering how far it will be an advantage for Government to attempt to lower prices by raising the sterling value of the rupee. Out of the two alternative courses open *viz.* (1) the imposition of a general export tariff upon all India's raw materials and food products at substantial rates of duties and (2) the raising of the rate of exchange steadily to the level of two shillings, Prof. Jevons prefers the second. He maintains that 'raising the rate of exchange has the same effect as increasing Indian prices to the foreign buyer and of lowering foreign prices for the Indian importer;' and that as a consequence there would be some reduction of India's export trade and an increase of the import trade. The statement that raising the rate of exchange has the same effect as increasing Indian prices to the foreign buyer is, we are afraid, inaccurate as it stands and is likely to be misleading. Except in the case of commodities in which India has a monopoly, the prices of Indian articles in foreign markets must be regulated by the general law of demand and supply operating throughout the world. The foreign buyer of Indian wheat will not a pay us a penny more for it simply because we have chosen to raise the sterling value of

our rupee. Suppose we raise exchange to 40d. to-morrow. Will the foreign buyer have to pay double the present price or any higher price at all only on that account? Certainly not. What will happen as a result of an enhanced rate of exchange is this. The gold prices of Indian commodities will, as usual, continue to be governed by world forces. If they go up or remain at a high level, Indian exporters and producers will derive benefit from the high prices which will yield them a larger quantity of rupees. The foreign buyer will pay the gold price fixed for our commodities in the foreign markets whatever our rate of exchange. And if we put up the rate, that price will only yield a smaller amount of rupees in this country to the detriment of the producer. The importer in India will pay a smaller amount of rupees here to obtain a certain amount in gold, say in London; and that will be his advantage. The manipulation of the sterling value of our national currency as suggested will thus put less money into the pockets of Indian producers while it will place a premium upon imports and benefit the importer and the foreign manufacturer who will be able to sell larger quantities of his commodities in this country.

It is evident from his article that Prof. Jevons has absolutely no illusions in this respect, and these effects constitute the very essence of his proposal. He thinks, and quite rightly, that the effects of a rise in exchange, will be counteracted largely by the reduction of shipping freights which is bound to occur. All the same, according to him, the object to be attained being a lowering of general Indian prices, exports must be reduced and imports must be stimulated and the remedy is to put up the exchange. Briefly put, his argument is that if our exports are deliberately restricted and

imports encouraged by reducing the profits of the former and increasing those of the latter, the Indian markets will be stocked with larger quantities of commodities with the inevitable effect that the prices will fall. The favourable trade balance will also be reduced and with it the quantity of money in circulation. And the question to be considered is, shall we impose this sacrifice upon the large producing classes in order that the general level of prices in the country should go down or at least should not rise higher? A high exchange will be a self-denying ordinance imposed upon the nation and will mean a self-inflicted loss to be suffered with the view to escape another loss or inconvenience viz. that caused by high prices. European nations are indeed confronted to-day with the serious problem of high prices. The Government of Great Britain has appointed a select committee to go into the whole question and is considering the steps that should be taken without delay and a royal decree has been issued in Italy fixing prices and providing severe penalties for those infringing its regulations. The situation in the U. S. A. also has become very serious and measures are being concerted to relieve the distress. Prof. Jevons has ruled out such measures as an export duty as inadequate to meet the situation. But we cannot accept his remedy which will defraud vast masses of producers of their legitimate profits and put them into the pockets of a comparatively limited class of people. It will be like saying to the producers that they should take less money for their commodities in order that they may have less to spend on their other necessaries of life. It will be levying an indirect tax upon poor people without enriching the state treasury.

An export duty would be far preferable to this form of indirect taxation.

It is worth considering whether the lowering of prices cannot be achieved by other means. Prices of (food) grains will not rise higher and may fall if the country can produce large crops. Transport facilities may be granted to bring about a satisfactory distribution and profiteering should be sternly checked. Very drastic measures are being taken in England with that object in view. If food production is not large enough, no raising of exchange will keep prices down. In any case, it will take a lot of anxious and prolonged thinking to decide whether Government should reduce India's favourable balance of trade by putting up the exchange in order to bring about cheapness. It is urged that foreign indebtedness to India will be on an extensive scale on account of the high prices of her staples of export and that a big gap will be left in her trade balance on account of the inability of foreign countries to meet their obligations in the shape of commodities which will prove too dear for the people of this country to buy. Foreign countries will, therefore, be forced to send the precious metals to India and that there will be an inflation of the currency. We feel that now that India stands on the threshold of a big movement for economic development, she wants abundant capital to finance her industries. A large favourable balance of trade will enable her to import the capital in the form of machinery, stores or in gold. In whichever form it comes, the imports will stimulate industry and banking, and the foundations of our currency system will be strengthened. With an effective gold standard and a subsidiary token currency, the dangers of inflation will disappear and the importation of the precious metals in

part payment of our exports will cause no trouble. The high prices which result from inadequate supplies of commodities must be met by providing for production on a large scale and a more satisfactory distribution. 'Produce more and consume less; in any case, economise,' is the only practical remedy the Food Controller has been able to suggest in England. If inflation of currency is the cause of high prices, the system of currency must be made automatic so that circulation of money may expand and contract according to the need. It has been claimed for the Indian system that though it is characterised as a 'managed system,' it is, in fact, as automatic as that of any other country. We do not believe this to be a correct statement. But if it is correct, the danger of inflation is unreal and our prices will not be affected by the volume of currency in circulation. As a result of his inquiry into the causes of high prices, Mr. K. L. Datta showed a few years ago that the production of food-grains in India had not been keeping pace with the growing demand and that the high prices of the grains were an advantage rather than otherwise to the cultivators. What is then required is larger production and improved distribution, of course, accompanied by the adjustment of the currency circulation to the real demand.

The relation of prices and exchange attracted a good deal of the attention of the Fowler Committee who had to fix the ratio between the rupee and the sovereign. Two of the members of the committee who favoured the 1s. 3d. ratio instead of the 1s. 4d. ratio proposed by the majority, made the following observations :—" It is on this aspect of the question that we base our strongest objection to the 1s. 4d. ratio—its

effect as an unfair tax on native production while conferring a bounty on imported goods. It is not a sufficient reply to this to say that, as imports are paid for by exports, the gain and loss to the community are equal. This is evident when we consider that the native producer is the class which loses, while the class which gains is the consumer of imported goods. It can never be sound policy to handicap native industry while giving a bounty to foreign imports, and in the case of India with large foreign obligations, which can only be met by surplus exports of produce, it would be a fatal course to pursue. But beyond the effect on exports and imports, so far as they balance each other, it still remains that with a 1s. 4d. exchange, the cost of providing at Rs. 15 each the 17 million sovereigns annually required for the home charges is a tax which falls entirely on the producer."

The sound principle enunciated in the above remarks must be borne in mind in deciding as to the rate of exchange for the future. Prof. Jevons has proposed 24 pence as the sterling value at which the rupee should be fixed on the ground that at that ratio the silver coins are not likely to go to the melting pot. The ratio is higher than that of the token coins of other countries and there is no danger of the bullion par being reached, in the case of the rupee thus valued. It is immaterial what artificial value we give to a token rupee which is merely a note printed on silver and under an effective gold standard which we are anxious to see established in India, the rupee must be a subsidiary and token coin. From this point of view, therefore, we have no objection to make to Prof. Jevon's proposal. But we must point out that without a real gold standard, the rupee will remain a full legal

tender; and giving a high artificial value to it is to invite all the undesirable consequences attending upon an unduly high exchange referred to above. Suppose silver depreciates in a few years' time and goes down to 30d. an ounce. What an amount of seignorage will Government charge upon the coinage of rupees in those circumstances! What inequalities of burden will that impose and how large will be the indirect taxation that will be levied upon the poor and the producing classes! We cannot assent to the measure as a permanent arrangement as it is calculated to impose a heavy tax and to subject the agricultural and other sections of the population to huge losses. We would rather favour the minting of new subsidiary coins with a high bullion ratio to save them from the melting pot and urge the adoption of measures by wnich an effective gold standard will be evolved in the near future. A system under which the whole currency consists of unlimited legal tender token coins and of notes convertible only into the tokens, cannot be tolerated for a single day longer than is absolutely necessary. If, however, we are not going to have an effective gold standard, the exchange value of the existing rupee must be kept as low as possible whatever rate may be temporarily thought desirable.

XV.

SILVER. GOLD AND BIMETALLISM.

"The direct obstacles in the way of international bimetallism were political. There never was a chance for the conclusion of a compact. Great Britain at no time was willing to accede, except as to British India, which would not have brought any new strength to the bimetallic league. Without Great Britain Germany would not come in; without at least one of these countries, the United States would not. Whatever the abstract possibilities of united bimetallism, the project never had a working prospect of realization".

"The danger of a scant supply of gold—so scant as to keep prices moving downward—disappeared. If silver had been freely coinable as well as gold, the total supply of the two metals would have increased without fail at a portentous rate... ... Bimetallism would have led not to stable prices, but to prices even less stable, and advancing even more rapidly, than under the single gold standard. The extra-ordinary increase in the production of gold has put an end, probably for ever, certainly for an indefinite period, to all proposals for rehabilitating silver" —Prof. F. W. Taussig.

The above two extracts characteristically represent the changes that have taken place from time to time in the views of economists respecting the use of silver and gold as monetary standards, in response to the varying degrees of increases in the supply of the two metals. For centuries the currencies of the world consisted of gold and silver coins circulating at fixed ratios of value. England led the way by establishing the gold standard, leaving other nations to use the double standard. Her example was later on followed by other countries. It was believed at one time tha

there would be enough gold available in the world to enable the leading nations to maintain gold monometallism while other countries might deal in the best way they could with the large quantities of silver with which they were flooded. The ground was cut off from under the feet of bimetallists when it was found that the help of silver was not required to satisfy the currency needs of countries which were asked to co-operate in maintaining the parity of the two metals. Countries with large stocks of silver might use the white metal for currency purposes and keep up the value of the local coins linked up to gold by controlling their supply. The limping or the exchange standard was a remedy for stabilizing sterling exchanges and the problem of the standards seemed to be finally solved. The exchange standard enabled individual countries to maintain the stability of their foreign exchanges without any international agreement.

Bimetallism came to be effectively discredited when the world's gold supply steadily increased from year to year and approached an annual output of £ 100 million. Far from silver being needed to supplement gold for the satisfaction of the growing currency needs of the world, it was felt that the supply of the two metals taken together exceeded the requirements of expanding trade and industry. The problem was now not to secure an adequate supply of gold and silver for currency purposes, but to create an outlet for the superflous gold which found its way into money markets. The output of gold began to prove embarrassing especially because it led to the expansion of credit and currency and sent up prices. Some looked to India for relief and suggested that gold might be diverted to this country to the benefit of other nations

which were flooded with the yellow metal. But the apprehension was present to their minds, at the same time, that gold once imported into India would hardly come out when it was needed by other countries.

Once more the supplies of the two metals have fallen short of the world's demand and silver has soared to heights not reached or approached even once in the course of the past forty-five years; and once more the question arises if bimetallism may not be tried, particularly in view of the universal acceptance of the idea of the League of Nations and the scarcity of the precious metals experienced through-out the world. But the leading nations appear to think that they can pull their currency systems successfully through the present difficulties and need not bother themselves about a bimetallic agreement. It is really worth while considering how far future demands of the world for the precious metals will be adequately met with supplies and whether currency systems of nations will stand the strain of a probable scramble for the possession of the metals. But saturated with gold, the U. S. A. does not care for bimetallism and England does not feel interested in the problem. The former and France were at one time keen upon the 'silver question' but now long accustomed to the gold standard, they seem to have lost their old keenness for bimetallism. Under these circumstances, no one is thinking of the double standard and the hope is entertained that things will right themselves in the near future without any special efforts, such as an international agreement for the use of the two metals for standard money.

This point was specifically raised in the House of Commons in July last and the following questions and answers thereon are instructive :—

Mr. Stewart asked the Prime Minister whether, in view of the abundance of paper currency in all countries at the present time and the general shortage of gold, he could see his way to extend the terms of reference of the Indian Currency Commission so that they might be permitted to enquire into the silver question in its entirety, with a view to finding out whether more use could be made of silver as a circulating medium; and whether its position, which was destroyed by the German legislation of 1873, could in any way be restored.

Mr. Montagu: The Indian Currency Committee has been appointed to consider certain questions relating to India on which an early decision is needed. The members chosen are specially qualified to deal with these questions. The Committee has already taken an appreciable amount of evidence. It is not practicable to enlarge the subject of enquiry, as this would involve the reconstitution of the present Committee, would require the new body to begin work again, and would seriously postpone the date of report.

Colonel Yate: May I ask the Leader of the House, to whom the question is addressed, whether it is not possible to have any enquiry made into the last portion of the question?

Mr. Bonar Law: Nobody knows better than my hon. friend that complicated and difficult questions are involved in his suggestion. The answer of my right hon. friend shows that it is necessary to get an early decision on the other matter, and that would not be possible if this were included.

Colonel Yate: May I ask for a separate enquiry to go into the matter?

Mr. Bonar Law: I will have that considered.

What will be the future of silver prices, is an extremely interesting but difficult question to tackle, but one in the solution of which all countries are directly or indirectly concerned. Before the War, the annual production of silver in the world was about 210 million ounces; and there is no reason to apprehend that with prices higher than those prevalent in pre-war years, this average output will not be maintained. The demand for silver in almost all countries increased owing to the

requirements of war, while the output decreased, and even in Great Britain, which coined one million £ worth of silver on an average, increased its silver coinage to £ 7 and £ 8 millions annually during the war period. With the return of normal conditions, it is not unreasonable to expect that the demand will diminish notwithstanding the fact that silver will be required to satisfy the wants of backward countries which will be rapidly developed in the near future, in Asia and Africa. At any rate, this latter increase in demand taken with the steadily diminishing requirements of European countries, need not maintain silver prices at the present high level viz. 61 d. an ounce.

There is, however, another factor governing the situation and it is the supply of gold. The cost of producing the yellow metal, has recently gone up and producers of gold in South Africa have been allowed to sell their produce in the open market at rates higher than those fixed in Great Britain. Before the war, world's gold production had reached £ 100 million annually, and this quantity can certainly be maintained in the future. The two metals taken together are thus calculated to satisfy the currency and arts demands of the world for many a year to come, especially if the credit system is fast developed in the backward countries. But in the absence of an international agreement, in spite of the great effects of the war, there will be a scramble for the possession of the precious metals ; and the leading statesmen of the world ought to consider seriously whether it is not possible to arrive at some arrangement by which this problem will be satisfactorily solved.

It is interesting in this connection to recall some of the remarks made by that redoubtable bimetallist, Mr. W. Leighton Jordan, in a letter addressed to Mr. Asquith, in 1912. After pointing out the blunder the British Government had committed in abandoning the double standard and the further blunder of introducing the gold standard in India, he proceeds :—

> "Is it wise—I will not say merely in the interests of commerce, but rather in the interests of civilized government—to force such a substitution of gold for silver? China and others are expected to follow the lead given by India and Japan and in such case the demand for Asia may easily become 100,000,000 *l.* a year for a long time. Where is the gold to supply 1,000,000,000 *l.* to Asia in ten years of a not distant future without prospect of creating disastrous scarcity in Europe and America? ....The Government of India, by opening a sluice to turn the gold supply of the world into Asia, have created a position which makes it imperative for this country to return to the double standard of value which was discarded by the legislation of Mr. Gladstone and Mr. Low in the year 1870." *

The variations in the average price of silver have been as follows :—

Year.	Bar Silver per Oz. std.
1860	61 11/16
1865	61 1/16
1870	60 9/16
1875	56 7/8
1880	52 1/4
1885	48 5/8
1890	47 11/16
1895	29 7/8
1900	28 1/4
1905	27 11/16

* The Standard of Value, pages 270–271.

Year.	Bar Silver per Oz. std.
1910	$24\frac{5}{8}$
1915	$23\frac{11}{16}$
1919, August	$61\frac{3}{4}$

Economists and financiers were, at one time, inclined to think that the problem before the world was not one relating to the deficiency of the precious metals but one of superfluity, particularly of gold. But the outlook has now changed, and the bimetallic point of view requires serious consideration. An alarm has already been raised against India's obsorption of gold and the use of that metal in increasing quantities for the manufacture of jewellery. The following extract will be read with interest :—

FIFTY YEARS' ABSORPTION.

In their weekly bullion letter, Messrs. Samuel Montagu & Co. publish the following statistics with regard to India as to the entry and exit of gold during the half century ending with the financial year 1913–14, calculated as a quinquennial average :—

	Imports.	Exports.	Net Imports.
	£	£	£
1864–65 to 1868–69 ...	6,038	314	5,724
1869–70 to 1873–74 ...	3,107	179	2,928
1874–75 to 1878–79 ..	1,482	888	594
1879–80 to 1883–84 ..	3,477	83	2,394
1884–85 to 1888–89 ...	2,537	239	2,298
1889–90 to 1893–94 ...	2,966	1,374	1,562
1894–95 to 1898–99	3,404	1,894	1,510
1899–00 to 1903–04 ...	8,666	4,514	4,122
1904–05 to 1908–09 ...	11,233	5,002	6,231
1909–10 to 1913–14 ...	21,858	3,092	18,766

[000 omitted].

The net total absorption for the above mentioned 50 years amounts to the large aggregate of £230,645,000. As the production of the world during the 50 calendar years ended 1913 amounted to £2,125,750,000, India absorbed over 11 per cent. of this total. Although the absorption during the last quinquennial period is more than three times that during the first mentioned, it represents an almost similar percentage of the world's production during these five years. The coincidence is remarkable, considering that conditions were quite different; for, during the former period, India possessed a free silver Mint, while during the latter the Mint was closed to free silver coinage, and, though British sovereigns were legal tender, they could be melted without illegality. The fact indicates that India's demand for gold is for the metal itself, rather than for its use as a medium of currency.*

During the five years, ending in 1914, India's net private imports of gold were worth 144 crores and of silver, 36 crores of rupees. The corresponding figures for the next five years, 1914–19, were 39 and 16 crores. Even Rs. 30 crores a year of imported gold should not appear to be extravagant; as in view of India's vast population, it is nothing, being less than one rupee in gold per head, per year. Foreign nations could not send gold to India in redemption of their indebtedness, and the void had to be filled up by the imported of silver on Government account for purposes of coinage. Government also acquired all gold imports into the country at fixed prices regulated from time to time in conformity with the rising exchange. Between August 4, 1914 and May, 1919, the net amount of gold and silver imported into India was as follows:—

Gold ...	...	£ 21,400,000
Silver ...	...	£ 516,202,000 std. oz.

* This argument has been examined in Chapter XIII.

There is nothing in these figures which should alarm any body and the attempts which are made from time to time to make the flesh of people in the West creep with exaggerated accounts of India's morbid hunger for the precious metals, is most unfair and unjust. Even if they wish it, the alarmists and the opponents of India's legitimate aspirations in currency matters, have no power to reduce her imports of the precious metals unless they decide not to buy her raw materials. The remedy lies not in forcing upon India a currency policy she does not want but in other nations adapting themselves to the altered conditions of the gold and silver markets of the world.

XVI.

CONCLUSION.

"The gold exchange standard is the merest makeshift, only suitable for periods of transition from silver to a perfect gold standard. Germany celebrated her 1871 victory by the adoption of the gold standard, and to this may be ascribed part of her vast industrial expansion between 1871 and 1914. Is it too much to ask that for India, an integral part of the triumphant British Commonwealth, that her victory celebrations should include not only as much political self-government as can possibly be obtained, but those measures of economic reform which will stabilise the country in a period of change?"—*India.*

It will not be necessary, in this last chapter, to do more than briefly sum up the conclusions which arise out of the discussion of the preceding pages and to arrange them in three classes, the Past, the Present and the Future.

The Past:—(1) Indian people were accustomed, for centuries, to the use of both gold and silver for purposes of currency and the coins made of the two metals circulated side by side. (2) Owing to the vastness of the country and the large number of princes and chiefs that ruled over its different parts, there were numerous coins in circulation. The East India Company attempted, when large portions of the country came under its rule, to evolve order out of the chaos caused by the multiplicity of coinage and early in the 19th century, established the silver rupee as the only legal tender in the country. Gold coins still circulated and were received at Government treasuries at fixed ratios with the rupee but gold was finally demonetised in the 1853 and the

Indian system became pure silver monometallism. (3) Government was urged in the sixties, to admit gold to legal tender along with silver but refused. (4) Then came the appreciation of gold and the steady fall in the sterling value of gold. The loss the Government sustained on its remittances of home charges and the growing uncertainties of sterling exchange, led to the closing of the mints to the free coinage of silver on the advice of the Herschel Committee of 1893. (5) The exchange having been prevented from falling further and even raised by the limitation of supply, the Fowler Committee recommended the adoption of the gold standard and the minting of the sovereign as legal tender money. This advice was accepted in 1899 and the gold standard was introduced. (6) But the policy of Government steadily drifted towards a gold exchange standard, and it was satisfied with the rupee as a token currency whose convertibility for remittance purposes was provided for by the building up of the Gold Standard Reserve out of the profits on rupee coinage. (7) This system was approved as eminently suitable to the conditions of India by the Chamberlain Commission of 1913, though it admitted that it was a departure from the policy advocated by the Fowler Committee and accepted by Government at the time.

The Present. (1) The Indian currency and exchange system thus developed would have gone on with the slight modifications suggested by the Commission of 1913 but the intervention of the War necessitated reconsideration. (2) The Currency Committee appointed by the Secretary of State was, however, instructed to restrict itself to the examination of the effects of the War upon the Indian system and practice and to recommend how a readjustment should be brought about

without changing the Exchange Standard and with a view to strengthen it. (3) During the war, mainly as a result of India's contribution to the prosecution of the struggle, our favourable trade balance was abnormally large and could not be met by the imports of the precious metals which were controlled by the Government. (4) The price of silver steadily rose till it now exceeds 61d. an oz. as against 24d. before the war and gold also became exceedingly dear. The circulation of notes likewise increased from 66 crores to over 163 crores, an increase of 150 per cent. In spite of the issue of one rupee and two and half rupee notes, the amount of the former being more than 10 crores, the demand for rupees was heavy and owing to appreciation of silver, the exchange was steadily raised from 16d. to 22d (5) The security portion of the Paper Currency Reserve has risen from 14 crores before the War to about 98 crores and therefore the ratio of the metallic backing to the note issue has considerably declined. (6) The exchange situation in England, France and other European countries has recently become acute. The sovereign is worth only 17s. in America and the franc has also lost its value. The position in India was in no way better. Owing to the uncertainty and instability of our exchange, export trade was paralyzed and the Secretary of State was urged to take prompt measures to set matters right. (7) The embargo upon gold was taken off in U. S., and South African producers were allowed to export gold and sell it in the open market at rates higher than the rate fixed by the Bank of England. (8) The Government of India recently decided to sell gold to the public to satisfy the demand in the country for the yellow metal, whose price had risen high owing to its scarcity.

The Future. (1) Stability of exchange has to be restored and the rate has to be fixed at a suitable level. (2) The free imports of the precious metals will go a long way in relieving the situation. (3) Assumption of power to refuse encashment of notes when it is not possible for Government to provide rupees has been suggested as a remedy and (4) another remedy is to issue light-weight coins. But this latter measure will not be of immediate use because by Gresham's law the existing rupees will be driven out of circulation. (5) The issue of large quantities of subsidiary coins with small metal contents, it is believed, will meet the demand for currency to a large extent, and taken along with free imports of gold, it is felt, will relieve the situation. (6) Debasement and inconvertibility of notes are remedies to be adopted in the last resort and as mere temporary measures and to meet a critical situation; and we must distinguish from them the regular and essential features with which our currency system has to be endowed. (7) For this purpose we do not think that there is any alternative to an effective gold standard unless it be bimetallism. Gold must be freely imported and India must have a gold mint for which Lord Hardinge's Government made a strong case years ago. Mohors were recently coined in the Bombay mint as a temporary measure to relieve monetary stringency and the establishment of an Indian Gold Mint ought no longer to be delayed. (8) Subsidiary coins of a metal other than silver should be issued in sufficiently large quantities so as to relieve the pressure on rupee circulation. (9) Measures should be taken to issue gold notes and to expand the circulation of notes of small denominations but the latter must be accompanied by extensive facilities of encashment throughout the country.

(10) The establishment of a central bank can no longer be delayed. The Presidency Banks seem to have the question of amalgamation under serious consideration. Schemes in connection with such an institution have already been threshed out, and for the proper mobilization of our capital and money, for the management of paper currency and for the financing of our trade, both ways, a central or State bank is an urgent necessity. (11) When such a bank comes into existence, we hope it will be able to put an end to the monetary stringency that periodically occurs in the country and will take up all the banking business which is at present done by Government in this country and in England. (12) If Mr. Montague's Currency Committee is not in a position to deal with these important matters, a strong Commission ought to be immediately appointed to discuss the problem thoroughly in all its aspects. (13) In any case, India must be endowed with a currency and exchange system, which is sound and automatic, such as all progressive countries possess, and not an exchange standard, under which our money consists of tokens linked up with gold by special arrangements. (14) The Indian exchange and currency system must be such that it will prove conducive to the economic prosperity of the people whose interests alone it should subserve to the exclusion of other interests and considerations.

INDEX.

	PAGES.
Bimetallism	12, 95–96 ; 99
Chamberlain Commission	1, 17 ; 43–45 ; 56, 59, 67
Currency Committee	3 ; 48–49 ; 62
Debasement	7, 18, 106
Exchange	5, 43 ; 61 ; 66, 91–92
Exchange Standard	22–23, 27–29 ; 42 ; 50 ; 60 ; 62 ; 75
Exports and Exporters	11, 17, 87–88
Fowler Committee	36, 54
Gokhale, quoted	9, 37
Gold	13, 19 ; 43 ; 61 ; 78 ; 80 ; 100–101 ; 105
Gold Mint	106
Gold Standard	25–26 ; 48 ; 78–79
Gold Standard Reserve	15 ; 64
Gresham's Law	18
Harrison Mr., quoted	44, 77
Herschell Committee	13, 54

Imports and Importers	17 ; 87-88
Japan	28, 31-32
Jevons Prof.	87-89
League of Nations	11, 96
Masses in India and Currency	19, 23, 28 ; 68 ; 73
Montague Mr.	3 ; 97 ; 107
National Congress	23 ; 73-74
Nicholson Prof., referred to	1, 42
Paper Currency	58 ; 63 ; 105
Philippines	10, 22, 39
Precious Metals	11, 95, 102
Prices,	Chapter XIV, 84-85 ; 87
Producers	11, 66
Ranade, quoted	25
Rayats	22-23
Reconstruction	36
Remedies examined	5-8 ; 38-40
Rupees	13, 21 ; 28 ; 38 ; 61 ; 86
Siam	40 note
Silver	61 ; 97-99 ; 101
Stability of Exchange	11, 42
Sovereign	54 ; 67 ; 79 ; 80-81, 105
State Bank	67 ; 107

Straits Settlements 10 ; 22 ; 40

Summary 103-107

Taxation 11, 35

Token Coin 16, 18, 36, 66

Trade Balance 10, 17 ; 29 ; 75, 90

U. S. A. 39, 89, 96

Wacha, Sir D. E. 20

War and Indian Currency 2 ; 47